TRENDS
IN
CONCENTRATION IN INDIA
(Business and Economic Power)

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PREFACE

Discussions on problems relating to the existence of monopolies and concentration of wealth and material resources, under private ownership and control in an economy, have always and everywhere been exciting issues of public policy and debate. In India too, the problem of economic power emanating from monopoly and business concentration, has exercised the mind of all national political parties, public representatives, social scientists and others. The discussions on the subject, however, have always remained inconclusive or at the level of generalisations. The main handicap continues to be inadequate information and data on the operations of the private corporate sector. Additionally, though the process of official inquiries into the problems posed by concentration of economic power in the hands of big business Houses in India was started soon after Independence, findings of none of the inquiries were taken to be sufficient to evolve appropriate policies. The latest commission, in this regard, was the Sarkar Commission, which has now been wound up.

We have made an attempt to put together the results of various studies to examine the trends in business concentration during the period of 1937-76. This study has also taken advantage of the data collected by the author, from the Balance Sheets of individual companies and the information published in the Stock Exchange Official Directory (Bombay).

The study, it is hoped, would provide a fairly good empirical base to have an objective appreciation of the problem in an overall and long-term national perspective. We have highlighted some of the special features of the problem of business concentration. The references to individuals, business Houses and corporate entities is not out of any malice or prejudice, but because of their position in the economy. It is the institutions and the system that is more important than personalities.

The interest of the author in the broad area of monopolies and concentration dates back to 1962-67 when, alongwith three other economists, a study on the working of private commercial banks was undertaken. The study on banking was prepared in response to a request from Chandra Shekhar, the then Secretary of the Congress Party in Parliament. The author also had the opportunity to

observe the operation of economic power and influence on the government system during 1967-69. During the last two years, with financial assistance from the Indian Council of Social Science Research, we have attempted to build up a computerized information system on the corporate sector, particularly the subsidiaries of foreign companies. We hope, it would be possible to have necessary resources to support a regular centre for research on the corporate sector and the multinational corporations.

An effort of this nature requires cooperation of colleagues, fellow scholars and those who are well informed of the business, political and administrative realities. The author had easy access to them.

Two types of personalities are responsible for early circulation of this study. One, like Pradhan H. Prasad, G.S. Bhalla, D.D. Narula, S.P. Verma and K.N. Kabra who have demanded it for research and teaching purposes; and two, suggestions from many friends who now happen to be involved in formulation of public policies. The responsibility for the data and views expressed, however, is that of the author alone.

Ranganathan and Poonam Barua assisted in data compilation for which my thanks to them. B.K. Anand provided the secretarial assistance for which I am grateful.

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CHAPTER - I

MONOPOLY CAPITAL : AN INTRODUCTION

The origins of the concept of a 'House' in India may be traced back to family enterprises and British 'agency houses' which were initially commission agents and later developed into managing houses. Business enterprises, in similar and supportive activities, came to grew under the patronage, initiative and control of certain business families and certain communities. In the average Indian mind, therefore, these communities and family names got associated with entrepreneurial capabilities; such images did help to win public confidence and market credibility to concerns which were part of the well known and successful business families particularly during the earlier stages of industrialization. (1) The institution of joint family system gave a broader operational base to the concept. The concept of a 'business family house', however, is not peculiar to the Indian scene. Names of a number of business families, which played a pioneering role in the process of industrialization continue to be associated with the development of specific countries at the international

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(1) Cf. Rungta, R.S. The Rise of the Business Corporation in India, Cambridge, 1970 and Gokhale Institute of Politics and Economics. Notes on the Rise of the Business Communities in India (Gadgil, D.R., and Namjoshi, M.V.,) Poona, 1951.

level. (2)

2. In India, until the publication of the Mahalanobis Committee Report (1964) and the Monopolies Inquiry Commission Report (1965), nearly all important 'Business Houses' took pride in their being large and influential. Claims were made for contributions, not only in the field of industry and business but also in the social and political life of the country. They brought out periodic souvenirs and sponsored publications on the family's contributions to the process of industrialisation and established charitable trusts for spread of religion, education, health care, sports and anything else that would give them prestige, status and acceptability. (3) The role of various business

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(2) Inchcape, Lever, Philips, Rockfeller, Ford, Krupps, Cummins, Morgan and Hatachi are internationally accepted Business Houses and each one is known after a family. Who owns whom (Dun and Bradstreet Ltd., London) provides lists of companies under all international families.

(3) For instance: many Houses in India are known to have built temples, ironically enough, one of the important Hindu temple in Delhi is more popularly known as Birla Mandir than Laxminarain Temple; in Kanpur there is the J.K. Temple; The Birla Institute of Technology & Science, Pilani was set up long back, and so also Tata Institute of Fundamental Research. In Bombay, the Birlas and Tatas built large/t

foot note contd..4.

families in the task of economic development has generally been recognized by the Government by nominating them on Government committees, delegations, and to Board of Directors of the Reserve Bank of India and other public sector enterprises. Public honours like <u>Padma Shri</u> and <u>Padma Bhushan</u> are awarded, from time to time, to prominent private industrialists. (4) The social and economic status, for a business family, has always been a <u>de facto</u> passport for direct access to the top echelons of political-cum-administrative power structure of the country. Some of the senior industrialists and established monopoly Houses have even been granted official privileges and authority which are otherwise hardly

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-hospitals. The Delhi School of Economics is housed in Birla Bhavan, and the library of the School is called the Ratan Tata Library. Mafatlals and DCM gave patronage to sports and the mass media (press, radio and TV) reports on performance of the teams known after them. Such examples can be multiplied. In recognition of their services industrialists have even been honoured by Universities. For instance, LL.D. to G.D.Birla by Banaras Hindu University and D.Sc. to J.R.D.Tata by Allahabad University.

(4) Padma Bhushan, for instance, was awarded to J.R.D.Tata (1955), G.D. Birla (1957), S.L. Kriloskar (1965), G.M. Modi (1968), K.P. Goenka (1969), and N.M. Wagle (1970).

available even to highly placed public officials. [5]

3. Criticism and public exposure of businessmen and their companies for indulging in violations of various provisions of the law, for resorting to tax evasion, for adopting corrupt and unhealthy practices and for deliberate fraud on the public, have not been unknown, either to Indian public or Government. [6] There have been a large number of cases where Special Commissions of Inquiry have been set up or administrative and judicial cases filed by Government to ensure continuance of public confidence in the private corporate sector. [7] However, the first important general

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(5) For instance, the permission to have 'priority' for putting through trunk calls, privileges associated with holding of a rank in Defence (J.R.D. Tata was Air-Vice Marshall of I.A.F.; B.P. Godrej, Hon. Counsel-General of Austria in Bombay) and nomination of industrialists on official delegations to U.N. and foreign countries.

(6) See: _Mysteries of Birla House_, _Birla House and TTK_, (N.C. Ray), Chandra Shekhar _A Peep Into Birla House_ (1967), _Painful Story of Dalmia and the Bose Commission_ _Mystery of Bajoria-Jalan House_ (N.C. Roy): Those publications are not priced ones, but these are available in some libraries. Also see: Dwivedi, S and Bhargava, G.S., _Political Corruption in India_, 1967.

(7) For a list of investigations ordered see: INDIA, _Annual Reports of the Company Law Department_. The appointment of Special Commission of Inquiry against Dalmias and Mundhra are well known.

inquiry against business Houses, in Independent India, was by way of appointment of the Income Tax Investigation Commission (IIC). The Commission was instituted, primarily to uncover the alleged high level of tax evasion and fraud on public exchequer by some of the important business families of India during the Second World War and/in the post War years. The IIC had to be wound up because of a judicial verdict against its institution. The second/such Commission on Large Industrial Houses was appointed in 1970 (Sarkar Commission). It was required to report within a year. The Commission, however, could not continue its work due to a spate of judicial 'Stay Orders' and non-cooperation of various official and other agencies. It has now been wound up (April 1979).

4. The first Census of Manufactures (1946), though it had a limited coverage, provided a broad picture of the organized industrial sector in India. Studies undertaken during the mid 'forties showed that there were only 34 private managing agency houses, each having control over capital of Rs. 1 crore and more. Out of these, only four 'managing agency houses' had control over capital resources of more than Rs. 5 crores and, three of them, of over Rs. 10 crores. Existence of high degree of capital concentration

was observed both in the total industrial capital as well as in most of the important industries, when seen individually. These 'Houses' were referred to as private empires and industrial combines. (8)

5. Hazari used the expression Business Groups to underline that 'economic power' of an individual company did not merely lie in its own capital assets, it was more appropriately reflected in the size of the net assets under the control of the business group as a whole, of which that company was only one of the constituents. (9) Hazari also studied changes in size of the assets controlled by twenty 'Business Groups' (which included large, medium and small Groups) during 1951 and 1958. (10) Hazari's work was also

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(8) Mehta, Asoka, Who Owns India, Hyderabad, 1950.

(9) Hazari, R.K. The Structure of Corporate Private Sector, Asia, Bombay, 1966, p.3. The Draft of the publication was available earlier to the Planning Commission.

(10) Hazari, R.K. Big Business in India, AITUC, Bombay, 1961.

the basis of the observations made by the Mahalanobis Committee on changes in the private corporate sector. (11)

6. In 1965, the Monopolies Inquiry Commission (MIC), distinguished between 'product-wise concentration' and 'country-wise concentration': the former relating to 'product monopoly' and the later, to 'capital monopoly' <u>i.e.</u> net assets under control of a Business Group. (12) It was the first official comprehensive investigation and on the basis of the data for 1963-64, it identified 75 Business Groups, each having assets of Rs. 5 crores and more. In addition to the 75 Groups, the <u>MIC</u> also identified 16 companies, (13) each with assets of Rs. 5 crores and above during 1964. The Groups, along **with** large size companies, were seen to be the points around which concentration of economic power in the private hands existed.

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(11) INDIA (Planning Commission) <u>Committee on Distribution of of Income and Levels of Living</u>: Report, Delhi, 1964.

(12) INDIA <u>Monopolies Inquiry Commission</u>: Report, Delhi, 1965.

(13) The survey of the <u>MIC</u> was very limited with regard to large independent undertakings. It was observed that "we find at least 16 with country-wise concentration". <u>Ibid</u>., p. 122.

7. The Industrial Licensing Policy Inquiry Committee (ILPIC) was appointed in 1967 to inquire if larger industrial houses had obtained a disproportionate share, through the operation of the industrial licencing system, during 1956-66.[14] In the absence of any official definition of an 'industrial house', the ILPIC decided to take the 75 Business Groups of the MIC as Large Industrial Houses. Out of the 75 Business Groups, those having assets of Rs. 35 crores or more (for the year 1964 and as estimated by the MIC), were treated as Larger Industrial Houses as per the decision of the ILPIC. Such companies which had assets of Rs. 5 crores but were not associated with any Business Group/ Industrial house, were described as 'Large Independent Companies'.

8. Chapter III of the Monopolies and Restrictive Trade Practices Act 1969 (MRTP Act) while referring to concentration of economic power employed the concept of

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(14) India Industrial Licencing Policy Inquiry Committee: Report, Delhi, 1969. Also known as Dutt Committee Report.

Group of Inter-Connected Undertakings (GICU).[15] If the net assets of GICU were more than Rs. 20 crores, it was made obligatory for the inter-connected undertakings to register themselves with the Company Law Department, which was nominated to administer the provisions under Chapter III.

9. From the above review, one would observe: firstly, that over time, the expressions employed with reference to the phenomenon of 'monopoly'capital', have varied; 'Private Trusts' (1939), 'Industrial Combines' (1950), Big Business (1961), Monopoly of Finance Business Groups (1964), Industrial Houses (1969) and Group of Inter-connected Undertakings (1969). Expressions like private empires and monopoly houses have also been employed. Secondly, while the terms have varied, the primary indicator of 'economic power' has all through been size of the capital or assets under control of a House. The choice of assets as an indicator of the degree of power and influence enjoyed by a company or a 'house' has never been seriously questioned.[16] And

(15) INDIA The Monopolies and Restrictive Trade Practices Act, 1969, Chapter III.

(16) We discuss this in Chapter IV.

thirdly, with time, the qualifying capital base for a House to be taken note of has been successively raised. While Asoka Mehta took note of all such private trusts (Managing Agency Houses) which had assets of more than Rs. 1 crore (1950), the MIC (1965) and the ILPIC (1969) had Rs. 5 crores as the base line, and the MRTP Act placed Rs. 20 crores as the cut-off point for the purpose of regulating concentration of economic power. Of late, there have been pleas for further upward revision of the capital limit; a group of industrialists appointed to go into the licencing provisions by the Ministry of Industries is reported to have recommended Rs. 45 crores as a minimum qualifying criterion for a House. The Sachar Committee which examined the suggestions for the upward revision observed that "we do not feel that any change in the criterion of Rs. 20 crores assets is necessary at present". (17) Raj Krishana, a member of the Planning Commission has made his contribution by suggesting a ceiling at the level of Rs. 100 crores. (18)

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(17) INDIA (Department of Company Affairs) High Powered Committee on Companies and MRTP Acts: Report, Delhi, 1978, p. 239.

(18) Raj Krishna has pleaded for Rs.100 crores assets of a 'House' to be the ceiling on the lines of ceilings of land holdings in agriculture. Full text of the paper is published in Financial Express, August 10, 1979. He was invited to a discussion, by a sub-Committee of the Janata Party, in his personal capacity.

10. The changes in expressions employed cannot be taken as a simple technical matter or merely a question of semantics. Expressions always carry with them an element of emotion and subjectivity. For instance, during the national struggle for independence of India, political parties viewed the dominance of industries by the British private trusts as a continuing drain and/instruments of exploitation of the economy. It was also felt that the existence of large private empires was inconsistent with the establishment of a democratic society.[19] The actual number of managing agency or industrial houses, it was argued, may appear to be large in number, but through the practice of inter-locking of company directorships and formation of trade associations, immense economic power got centered in the hands of a few individuals. To convey these sentiments, the term coined was private empires, 'trusts' and 'finance capital'.[20]

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(19) "We demand democratic control over the finances of Government of Bihar, shall we let the industries remain under the unchecked control of their oligarchs". Annual profits of TISCO, it was stated, were as large as the total revenue of Bihar State. See: Mehta, Asoka, Who own India, p. 22.

(20) Ibid, p. 22.

In contrast to this nationalist view held in the pre-independent India, the present expression used is: Group of Inter-connected Undertakings (MRTP Act 1969). The qualifying terms such as 'large', 'big', 'monopoly', and 'house' have been dropped and the neutral expression of 'GICU' has been preferred. Similarly, the term 'monopoly', which to students of economics has a specific meaning, gave way to 'product-wise concentration' or 'dominant undertakings'.

11. It may be recalled that within a year of the Independence of India, a Committee of the Congress Party, with Nehru as Chairman (21), visualized the establishment of an "economic structure which will yield maximum production without the operation of private monopolies and the concentration of wealth". (22) It was further added that "new undertakings which are in the nature of monopolies or in view of their scale of operations serve the country as a whole or cover more than one province should be run on the

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(21) Indian National Congress, Economic Programmes Committee: Report, Delhi, 1948: Chairman: Jawaharlal Nehru. For full text; Young Indian, vol. II, August 1972, pp. D98-103.

(22) Ibid, Section I, para 2.

basis of public ownership". (23) It was further visualized that "in respect of existing undertakings process of transfer from private to public ownership should commence after a period of five years."(24) (emphasis added). Independent India was not to have private monopolies and large private undertakings. There was to be a time bound programme to liquidate the then existing private monopolies. (25) In sharp contrast to this approach, government policy has not only accepted private monopolies but also extended all possible help to their establishment and promotion.

12. An interesting feature of the subject of private monopolies in India is that there has been no serious attempt, on the part of the Government, the national political parties or social science researchers to undertake continuing investigations on the fast changing character of the Indian private corporate sector. The absence of an

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(23) Ibid, Section IV, para 6.

(24) Id.

(25) Cf INDIA Industrial Policy Resolution 1948: the five year period was extended to 10 years. In the Industrial Policy Resolution 1956, there was, however, no reference to take-overs as a policy. We took our first step towards establishment of a Socialist Pattern of Society!

official agency, charged with the specific responsibility to study changes in the degree of .... concentration of economic power in private hands or dealing with the question of 'product monopolies' has to be seen against the background of (a) the Directive Principles of State Policy of the Indian Constitution which require that; "<u>the State shall, in particular, direct its policy to-wards securing</u> ... <u>that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment</u>"; and (b) one of the objectives of our Plans which has repeatedly emphasized that <u>the development of the economy</u> should be on socialist lines (emphasis added). (26) One, of course, need hardly refer to the recent constitutional amendment which describes India as a 'Socialist Republic'. If the Government has to discharge its responsibilities in this area, one basic pre-requisite would be an objective assessment of the magnitude, nature and trends in the level of concentration in the economy. Is there any agency to perform this task within or outside the Government? (27)

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(26) See: <u>Mahalanobis Committee Report</u>, p. 4.

(27) The need for establishment of such an agency was emphasized in all the many official earlier reports (<u>e.g.</u>: Mahalanobis, <u>MIC</u>, and <u>ILPIC</u>) apart from various individual scholars. We discuss this aspect in Chapter II.

The Company Law Department (Research and Statistics) restricts itself to routine administrative reports and has not been structured for tasks of this nature.

CHAPTER - II

DATA

ON

CORPORATE SECTOR : ABSENCE OF ANY SYSTEM

1. Changes in concentration or the relative importance of 'Houses', in the Indian private corporate sector could be easily assessed, provided the requisite time series data and information on different aspects of the corporate entities were available. (Though compilation of data and monitoring of the corporate sector is a pre-requisite for evolving appropriate policies and assessing their impact on the economy, no agency for this purpose has so far been established.) Government research departments remain pre-occupied with routine administrative work. Strangely enough, while considerable efforts have been made to collect a variety of data on working of unorganized sectors in India, very little has been done to keep a watch on trends in the organized sector.

2. Problems of data collection on the corporate sector in India are far less, since all constituents of the organized sector submit periodic reports to Government,

under one or the other regulatory provision. (1) For instance, the Companies Act requires each company to submit its annual report and Balance Sheet to Government; all large enterprizes desirous of undertaking expansion or diversification in their production programmes under the IDR and MRTP Acts, are obliged to supply a good deal of information to Government; and tax returns apart, industrial unit-wise data is available with Government on capacities, production, pattern of share holding, nature and composition of senior management personnel, quantum of imports and exports, product prices and details of expenditures and agreements. Invariably, reports to Government are on a set of proformae prescribed for this purpose. In this ~~complex~~ Computer age, to have a national register or a comprehensive information system for a few thousand companies, should in any case be no problem -- provided of course, there was a decision and the requisite will to do so.

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(1) Some important enactments, under which periodic data is reported to Government, are: Industrial Development and Regulation Act (1956), Tariff Commission Act (1951), Capital Issue Act (1947); Companies Act (1956); Essential Commodities Act (1955), Foreign Exchange Regulations Act (1973), Imports and Exports Act (1947); and Monopolies and Restrictive Trade Practices Act (1969).

3. The need for establishment of a proper agency on the corporate sector was first emphasized by the Mahalanobis Committee Report. It observed:

> ... the sooner the Government set up the necessary machinery for collection, examination and analysis of all relevant data on the subject, the easier it would be for it eventually to formulate the necessary policy that will combine industrialization with social justice and economic development with dispersal of economic power. (2)

The Monopolies Inquiry Commission faced serious data limitations in its work. As a result of inadequate information, the MIC while determining composition of Business Group, had to exclude all doubtful cases. The Commission was "clearly of opinion that a permanent body should be set up with the duty and responsibility for exercising vigilance for taking action to protect the country against the dangers that we think do exist." (3)

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(2) INDIA, The Committee on Distribution of Income and Levels of Living: Report, (Chairman: Mahalanobis, P.C.), Delhi 1964, p. 55.

(3) INDIA, Monopolies Inquiry Commission: Report, Delhi, 1965, p. 139.

4. The ILPIC drew attention of the Government to the major lacunae in collection, maintenance, and processing of data in Government organizations. The ILPIC, in its work, organized a large set of data on licensing, collaborations, financial operations of public sector, financial institutions, capital goods imports and the extent of implementation of industrial licences. The same was computorized. It expressed the hope that "Government will not permit this effort to be wasted and that steps would be taken to continue and develop an effective system for the compilation, maintenance and processing of data on these vital aspects of industry". (4) A detailed scheme for data collection, and maintenance and processing, as worked out by the Committee was forwarded to the Government. (5) The absence of a system for compilation of basic data in this area has also been pointed out by many other individual scholars who undertook studies of

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(4) INDIA, Industrial Licensing Policy Inquiry Committ ee: Report, Delhi, 1969, p. 196.

(5) See Goyal, S.K. Data Processing & Maintenance (ILPIC) (Mimeographed).

the corporate sector. (6)

5. Apart from the absence of an adequately equipped agency for collection, compilation and analysis of statistical data on the corporate sector, two other limitations experienced by researchers need also to be highlighted. One, while the Balance Sheet and Profit and Loss statements for public limited companies can be consulted at Registrar of Companies Office, the same does not hold true for partnership, proprietory concerns and private limited companies. The Houses operate through various organizational forms, which include investment, educational and religious trusts. Apex and investment companies are invariably closely held and are either private limited companies or proprietory concerns.

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(6) For instance, see: Kidron M., Foreign Investments in India, Oxford, New York, 1965, p. 188; Kurian, M. Impact of Foreign Capital on Indian Economy, PPH, Delhi, 1966, p. viii; Subramanian, K.K. Import of Capital and Technology, PPH, Delhi, 1971, pp.6-7, Markenston, K. Foreign Investments and Development, Lund, 1975, p. 51. For a review of the problems faced by scholars in the area see: Goyal, S.K. "Industrial Regulation - A Trend Report", in ICSSR, A Survey of Research in Public Administration, vol. II, Allied, Bombay, 1975, pp. 444-471.

Research studies have, primarily, to be confined to public limited companies. Additionally, since all companies under a House are not registered in the same State researchers have to visit offices of Registrars of Companies located at different places. It is well known that Balance Sheet data is always presented after a good deal of window dressing. The Annual Reports of Companies are said to hide more than they reveal. Interestingly enough, though primarily due to absence of proper coordination in legislation, at the executive level, a company can submit one sort of financial performance under the Companies Act and another for purposes of income tax. The returns are filed on an annual basis to various administering agencies of the Central and State Governments. Government system is supposed to regulate the modern and organized sector; and yet the regulatory system and the procedures followed continue to be the ones which were evolved long back. The returns are placed in files which do not lend themselves to easy or quick retrievability.

6. <u>Two</u>, in India, Government enjoys fairly adequate powers to order investigations and exercise control on the industrial and corporate sector. Each year the Company Law Department orders inquiries against a large number of

companies in the private sector. Results of these inquiries, however, are not made public. These continue to remain 'secret' or 'confidential'. In addition to the large number of investigations completed by the investigating staff of the Departments, Commissions of Inquiries undertake studies with specified objectives. For instance, the Income Tax Investigation Commission during its short period of existence caused a number of 'Inspectors' Reports' on the magnitude and nature of malpractices resorted to by the business concerns. The Inspectors' Reports are said to have uncovered a variety of techniques adopted for purposes of tax evasion. Some extracts from these reports found their way to the press and were published by an enterprising person. (7)

7. The ILPIC during its work undertook 457 case studies to examine if there was favour shown or influence exercised by the Larger Industrial House, on Government. (8)

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(7) Cf The three publications: Mysteries of Birla House, TTK and Birla House, and Roy N.C. Mysteries of Jalan Bajoria House.

(8) For a full list of case studies, see: ILPIC Report, Appendices I, pp. 39-66.

These case studies would naturally be of immense use to researchers -- not from the viewpoint of discovering scandals or role of personalities but for understanding the strength and weaknesses of the existing regulatory system of the Government. The Case Studies continue to be treated as 'secret'. One has a strong suspicion that a similar fate awaits the studies and investigations completed by the staff of the Sarkar Commission. In its nearly nine years of functioning, the Commission might have incurred an expenditure of more than Rs. 1 crore, but the Commission staff collected a wide variety of significant information and data.

8. The limited point being made here is that the present regulatory system is not organized for proper administration of provisions of various legislations; nor does the present practice of classifying nearly all useful information as 'confidential' allow objective studies. (9) A direct

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(9) The data is not only kept 'confidential' for individual scholars; it is also denied to Government appointed Commissions of Inquiry. The MIC's observations are pertinent in this respect. It observed: "Another Department of Government whose primary function is the collection of statistics of production of various commodities is the Central Statistical Organization. We had hoped that these would be of much assistance to us, specially as they might cover the output of small industries also which do not furnish return to the DGTD. Unfortunately, our efforts to obtain the statistics maintained by the Central Statistical Organization were unsuccessful. In reply to our request for supply of the relevant statistics, the Departmental authorities pointed out certain legal difficulties in the way of the information being made available to us." MIC Report, p. 122

consequence of the excessive 'confidentiality' with regard to the corporate data and information is that even honest investigating officers, very soon discover the futility of their genuine efforts to protect 'public interest'. The observance of a high degree of secrecy of public inquiries into the private sector in general, and for companies of the Houses in particular, needs to be seen in contrast to the open scrutiny and publication of each and every inquiry into the working of public sector enterprises. The short-comings of the public sector get exposed and very rightly so but reports on malpractices of the private sector get pushed below the carpet. In comparison, general image of the private sector remains a clean one and that of the public sector, a tarnished one.

9. One has a suspicion that the main reason for excessive secrecy, on part of Government agencies, is a 'hang over' of the colonial era when objective studies of government functioning were nearly prohibited. In part, unwillingness of officials may be due to their implied responsibility for the authenticity of data supplied, on the basis of which, questions in Parliament may be asked. Private industrialists (as anywhere else) are least

willing to expose themselves to any objective scrutiny by 'outsiders'. This is apart from the 'window dressing' they would, in any case, do before sharing information on ownership, control or working of their industrial estates. The resistance to share information is also implied in public pronouncements against concentration and monopolies and malpractices by the Houses'.

10. In the absence of necessary objective studies, the alternatives proposed and policy-frames evolved can, at best, be expressions of whims and fancies of those who are supposed to control the power apparatus of the Government. Further, it is to be expected that the GICU's or 'Houses' i.e., the holders of economic power, would make all efforts to influence and change Government policies in a manner that would suit them best. It should, therefore, not be surprising if the holders of 'monopoly' position promote ideas that sell in the 'political' or 'administrative' market. We must remember that whereas the interests of a House or a large company are the continuing responsibility of a group of determined individuals, with clear-cut objectives, 'public interest' is supposed to be guarded and promoted by the impersonal and everchanging Government set-up, controlled by civil servants and transient public representatives.

CHAPTER - III

CRITERIA FOR HOUSE COMPOSITION

1. The Mahalanobis Committee could not undertake the necessary survey of private corporate sector in India; it relied on Hazari's study. In its concluding remarks, the Committee observed that it could not have "more comprehensive and detailed information regarding the many aspects and ramification of economic power and controls in the private sector". It, therefore, recommended establishment of a regular machinery to help formulate the necessary policies which would achieve social justice and economic development with dispersal of economic power. (1)

2. For a long time, the concept of a Business House continued to be equated with a 'Managing Agency House' (MAH). The companies under the management of each Managing Agency firm were treated as if these were a single independent entity, irrespective of the common control over the MAH which might exist within or outside

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(1) INDIA Committee on Distribution of Income and Levels of Living, Chairman: P.C. Mahalanobis, Delhi, 1965, p. 53.

India. (2) Hazari, however, defined a Business Group "as consisting of units which are subject to the decision making power of a common authority". For this he did not go by the 'majority equity concept' alone to determine business associations of companies. While determining the composition of a Group the fact that there were (i) shares held by non-voting agencies, (ii) financial, trade or technical agreements providing special rights, and (iii) many other factors, formal and informal, were taken note of. From the view point of controlling power, companies seen to be under the sole control, and majority ones, were collectively called the "Inner Circle"; and companies in which a Group had a "voice and a material influence but not <u>the</u> controlling voice" were treated as belonging to the 'outer circle' of the Group. (3)

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(2) This fact was noted but probably due to absence of clear evidence each Managing Agency House was treated as a single entity. For instance; see Mehta, Asoka <u>Who Owns India</u>, Hyderabad, 1951, and Ray, Rajat K. <u>Industrialization in India</u>, Oxford, Bombay, 1979.

(3) Hazari, R.K. <u>Structure of the Corporate Private Sector</u>, (1966) p. 7.

<u>Monopolies Inquiry Commission</u>

3. For determining the composition of different Business Groups, the <u>MIC</u> prepared a tentative list of companies which were reported to be belonging to different houses in earlier studies, brochures, pamphlets, notices and advertisements appearing in the press. Each 'Group' was requested to send its comments on the list. In addition to the companies which were admitted to be Group Companies, the <u>MIC</u> also examined (i) ownership pattern of the shares, (ii) nature of management and the Board of Directors, and (iii) use of common insignia. Out of the total of 2,259 companies, believed to be associated with Business Groups, 1,316 companies were admitted by the Groups, as belonging to them. The Commission examined the remaining 943 companies to determine their associations. In case of 570 companies the links were seen to be weak to justify their inclusion with one or the other Group. For 80 companies, the <u>MIC</u> was "unable to get full information" and therefore the question of association was dropped. (4) The approach

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(4) <u>MIC Report</u>, p. 34.

of the MIC was: " in every case of doubt, we have excluded the company from the group under consideration. Similarly, companies which were jointly owned by two or more groups, were excluded". (5) (emphasis added).

4. The ILPIC took note of the limitations of the Group composition as determined by the MIC; but in view of the time and resource constraints and the fact that its terms of reference required it to deal with larger industrial Houses, it decided to limit its exercise in determining house composition to twenty Business Groups of the MIC, each with assets of Rs. 35 crores and more, during 1963-64. As regards the comparatively smaller Groups (with assets of Rs. 5 to 35 crores) the ILPIC depended upon advice of the Company Law Department.

5. The criteria evolved by the ILPIC for determining composition of Industrial Houses was the following:

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(5) Id.

I) Concerns admitted by the House through the replies received by the Committee from the apex companies.

II) (a) Concerns mentioned as forming part of the House in the Souvenirs or other publications of the House.

(b) Concerns functioning as Managing Agents/ Secretaries and Treasurers which are wholly or substantially owned by the controlling authority in the House along with relatives.

(c) Companies managed by (I) and (II) (a) and (b) above, in their capacity as Managing Agents/ Secretaries and Treasurers.

(d) Companies deemed to be under the 'same management' under Section 370 of the Companies Act, 1956 as the companies at (I) and (II) to (c) above.

III) Companies wherein not less than one-third 'effective equity' can be clearly identified as House-interest.

IV) Concerns found to have special characteristics which would warrant their inclusion under a House. The special characteristics may be such as majority on the Board of Directors being comprised of persons closely affiliated with the House, substantial equity shareholding being owned by the employees of the House, sole selling agency arrangements and services like office premises and telephone facilities. (6)

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(6) ILPIC, p. 18.

6. At variance from the MIC criterion of majority equity, the ILPIC adopted 'effective equity' as a basis. The concept of 'effective equity' was based on a study of the corporate sector which showed that "in many large companies, a significant part of the equity is held by large shareholders who are known not to interfere in the management of their internal affairs".(7) For instance, public sector financial institutions like Industrial Finance Corporation (IFC), Industrial Credit and Investment Corporation of India (ICICI), Life Insurance Corporation (LIC), Unit Trust of India (UTI), and Central and State Government's hold substantial shares but as a rule the voting rights are not exercised, except in very exceptional circumstances.(8) It is also well known that the equity shares held by foreign collaborators and non-resident share holders usually adopt a policy of non-interference. Thus, such shares which were "passive", were excluded for

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(7) Ibid, p. 15.

(8) A Government Directive to public sector financial institutions is that "it should not acquire control or participate in the management of any concern in which it has interest as an investor". Cf. ILPIC Report, p. 118.

determining controlling interest. The effective equity of a company, therefore, was taken to be: total equity <u>less</u> all categories of passive shares.

7. Second major change adopted by the ILPIC was with regard to the qualifying percentage of equity shares to locate the 'controlling interest'. As it had been observed that one needed a a far smaller percentage of equity shares to maintain control over a company, the majority concept was not followed. The combined interest in shares, (held by House companies, members of the controlling family and close relatives, senior employees of the controlled companies and family trusts) at the level of <u>one-third</u> of the effective equity, was seen to be adequate for inclusion of a company under the House. Such companies in which a House was seen to have less than the controlling interest, but there was evidence to suggest close associations, were grouped as 'Second Tier' Companies of the House -- similar to Hazari's 'Outer Circle'.

8. The <u>ILPIC</u>, in brief, evolved its own criteria for determining House composition, and it took note of

the corporate realities and practices. As a result of its efforts the Committee compiled:

a) List of companies which were seen to be under the control of 20 Larger Houses.

b) List of companies of the 53 Larger houses (as per the Company Law Department. (9)

c) List of large independent companies (each having assets of Rs. 50 crore and more).

d) List of Indian Subsidiaries of foreign companies which carry on business in India but are registered abroad.

9. Under the MRTP Act, 1969 (Chapter III) the concept of Group of Inter-connected Undertakings (GICUs) is applicable to (i) undertakings which either by themselves or together with inter-connected undertakings have assets of not less than Rs. 20 crores, and (ii) 'dominant' undertaking (alongwith its inter-connected undertakings) having

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(9) The MIC had treated Macneill and Barry and Binny as two Groups but because both were under the Inchcape Group of London, these were treated as one House. BIC was taken over by Soorajmal Nagarmal (1961) and Kothari (G.D.) House was placed under Birla-Second Tier. Due to these changes the number of ILPIC Houses, declined.

assets or more than one crore of rupees.[(10)] An elaborate criteria for inter-connected undertakings is provided in the Act. However, the crucial and operational handicap of the MRTP Act is that it does not provide for an agency that could keep a close watch on changes taking place in the ownership and control structure of the private sector. The act expects that individual companies would come to register themselves with Central Government, if they were under the control of a House. The Company Law Department acts only as a post office and keeps the list of the registered companies, under the MRTP Act, updated. GICU composition, therefore, is a matter of voluntary disclosures.

Impact of Changes in Criteria

10. It is quite natural to expect that changes in criteria employed for determining the composition of a House would have its implications on the number of companies and the assets that would be seen to be under common control. The degree of change would depend upon the

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(10) A 'dominant' undertaking, under the MRTP Act, is one which controls one third or more of the production, supply or distribution of a 'good'. For a review of the concepts see: INDIA Sachar Committee Report, pp. 238-247. A few serious limitations of the concepts have been brought out by the Committee.

changes in the criteria. Table-I and Table-II show the comparative size of the 20 Larger Houses, as determined by the MIC and the ILPIC. The coverage of ILPIC (1966) over the MIC (1964) was larger by 22.7 per cent in terms of the number of companies, and nearly 30 per cent in terms of assets. The changes were most prominent in the case of the House of Birlas (52 companies added and an increase of Rs. 165.12 crores) and Tatas (17 companies added and an increase of assets by Rs. 87.64 crores).

11. The GICU companies are under obligation to obtain Government approval for their expansion and other Group activities. Politically, it is somewhat awkward, to be dubbed as 'Big Business'. This is attempted on three basis. One, it is argued that the overall size of even the largest Houses in India is nowhere near the U.S., European or the Japanese industrial giants. Two, in India the size of the largest companies is so small that it cannot reap full economies of scale. This is particularly so when the largest Indian companies are seen against the Multinational

Table - I

Showing Number of Companies included by MIC and ILPIC for the Twenty Larger Houses

S. No.	House	Number of Companies			(% Change)
		MIC	ILPIC	3-2	
	1	2	3	4	5
1.	Tata	53	70	17	32.1
2.	Birla	151	203	52	34.4
3.	Martin Burn	21	24	3	14.2
4.	Bangur	81	93	12	14.8
5.	ACC	5	5	-	-
6.	Thapar	43	59	16	-
7.	Sahu Jain	26	29	3	11.5
8.	Bird Heilgers	64	76	12	18.7
9.	J.K.	46	47	1	2.1
10.	Soorajmal Nagarmal	76	104	28	36.8
11.	Walchand	25	29	4	16.0
12.	Shri Ram	16	36	20	125.0
13.	Scindia	8	8	-	-
14.	Goenka	52	69	17	32.6
15.	Mafatlal	21	34	13	61.9
16.	Sarabhai	27	29	2	7.4
17.	Andrew Yale	29	43	14	48.2
18.	Killicks	14	17	3	21.4
19.	ICI	5	6	1	20.0
20.	Kilachand	12	21	9	75.0
21.	Total	775	1002	227	22.7

Table - II

Showing Assets under Control of Twenty Larger Industrial Houses: MIC and ILPIC

(Rs. crores)

S. No.	House	Assets		3-2	% Change
		MIC	ILPIC		
	1	2	3	4	5
1.	Tata	417.72	505.36	87.64	21.0
2.	Birla	292.72	457.84	165.12	56.40
3.	M.B.	149.72	153.06	3.45	2.30
4.	Bangur	77.61	104.30	26.39	33.87
5.	ACC	77.36	89.80	12.44	16.08
6.	Thapar	71.90	98.79	26.89	37.40
7.	Sahu Jain	67.69	58.74	-8.95	-13.22
8.	Bird Heilger	60.00	68.62	8.62	14.36
9.	J.K.	59.20	66.84	7.64	12.90
10.	Soorajmal Nagarmal	57.77	95.61	37.84	65.50
11.	Walchand	55.17	81.11	25.94	47.01
12.	Shri Ram	54.68	74.13	19.45	35.57
13.	Scindia	46.96	55.98	9.02	19.20
14.	Goenka	47.95	65.34	17.39	36.26
15.	Mafatlal	45.91	92.69	46.78	101.89
16.	Sarabhai	43.16	56.71	13.55	31.39
17.	A. Yule	41.89	46.74	4.85	11.57
18.	Killicks	41.50	51.07	9.57	23.06
19.	ICI	36.89	50.60	13.71	37.16
20.	Kilachand	35.13	37.22	2.09	5.95
21.	Total	1781.12	2310.55	529.43	129.72

Corporations. (11) And three, the individual Houses are arguing that the criteria for inter-connections is so wide that many of the companies included under Houses are such, which operated independently of the House. Further, it is argued that even if there were closely held companies, under a Group, these did not act as single entities, and in fact, each company of the House was governed by its own Board of Directors and could be seen to be entering into direct competition with other companies of the House. (12)

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(11) Such arguments have been repeatedly made by the FICCI in their Memoranda to Government and by the Houses of the Tatas and the Birlas, in particular. See: Memoranda submitted to the Joint Committee on MRTP Bill, 1967, Evidence, Vol. I, Rajya Sabha Secretariat, New Delhi, February 1969.

(12) The validity of such assertions was examined by the ILPIC. It would be helpful to reproduce the comments in full:

Birla Brothers Private Limited, in their reply, have contested the concept of a group. It is said, "The different companies in which they (i.e., the descendants of Raja Baldeodas Birla) respectively hold shares cannot, on that account alone, unless there is unity of interest of different share-holders constituting a majority in different companies, be regarded as belonging to a group".

Even the fact that certain companies are under the same management should not, by that test alone, be regarded as belonging to a group. There are certain companies which act as Managing Agents. These are as follows:-

Foot note contd. next page.

12. Under the MRTP Act the GICU companies are expected to register themselves, voluntarily, with the Government. Under such a situation it is only to be expected that Large Houses would attempt to keep as many companies out of their House, as possibly they could. Also, the Houses would make changes in their own organizations and company structures in such a manner that only a minimum number are shown as constituents of the GICU. The extent to which the GICU is different from the ILPIC, is brought

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Birla Brothers Private Limited, Birla Gwalior Private Limited, Birla Bombay Private Limited, Zenith Distributors & Agents Limited, Hyderabad Agencies Private Limited, and Veraval Rayon Industries Ltd., and

"In the above companies, individual Birlas hold shares in their own respective rights".

Each of the above companies are Managing Agents of public companies, in very few of which the Birlas, even when taken collectively, have substantial interest.

While such refutation of the concept comes from Birla Brothers, other apex companies of what we call the Large Industrial House of Birlas, have indicated in their replies as follows:

"The reply of M/s Birla Brothers Private Limited may be regarded as compliance by us also" (emphasis added).

Among others, J.K. (Bombay) Pvt. Ltd. have stated that they could not be deemed to be the Head of the J.K./Singhanias Group. M/s Kirloskar Sons & Co. have stated that the various partnership concerns functioning as Managing Agents included under one group by MIC are "absolutely independent of each other". M/s Kirloskar Associates state that "Kirloskar", a trade name, has been purchased by a managed company.

out in Table-III. A substantial reduction in the number of companies now registered under different Houses, has taken place.

13. The exclusion of companies is not confined to a few or small undertakings of the Houses. To see the nature and magnitude of the exclusions (companies covered by ILPIC but not registered under the MRTP Act) one has to identify the names of the important Companies now excluded from the two largest Houses, namely, Tata and Birla. Before one lists significant exclusions it is necessary to mention the mergers, take-overs by Government (as in the case of insurance companies), and liquidations. Secondly, those companies which are known to have changed hands should also be excluded, though it is a difficult task. Thirdly, it needs to be mentioned that apart from the limited nature of the GICU criteria, there is also a restricted definition of 'undertakings' which need to be registered under the MRTP Act. For instance, as per the MRTP Act definition, all investment companies get excluded from obligation to register themselves under the Act.(13)

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(13) INDIA The High-Powered Expert Committee on Companies and MRTP Acts: Report, Delhi, 1978, pp. 244-245. (Sachar Committee Report).

Table - III

Showing Number of Companies Under Twenty Larger Industrial Houses (ILPIC) and MRTP Act (GICU)

S. No.	House	ILPIC	GICU	Excluded	Added
	1	2	3	4	5
1.	ACC	5	5	1	1
2.	Bangur	93	43	49	7
3.	Bird Heilgers	76	25	39	7
4.	Birla	203	70	130	17
5.	Goenka	69	5	50	1
6.	ICI	6	7	0	1
7.	J.K. Singhania	47	34	17	6
8.	Kilachand	24	11	5	0
9.	Killick Kapadia	17	13	10	6
10.	Mafatlal	84	20	9	5
11.	Sahu Jain	29	11	23	0
12.	Sarabhai	29	9	21	4
13.	Scindia	8	3	4	0
14.	Sriram	36	13	10	4
15.	Soorajmull Nagarmull	104	7	79	1
16.	Tata	70	33	36	8
17.	Thapar	59	36	22	8
18.	Walchand	29	18	7	0
	Total	988	353	512	76

* Martin Burn and Andrew Yule Houses are not covered by the MRTP Act 1969.

14. Table IV lists some of the well known companies of the Tata House which are not covered under GICU. For instance, Tata Industries (formerly an apex managing agency company of the Tatas), Tata Johnson, National Ecko Radio and Engineering, and Investment Corporation of India, (with its subsidiaries: Unval Industries and Indian Standard Metal Company with Naval Tata as Chairman) are missing from the GICU companies. In all, out of the 70 companies as per ILPIC only 26 are now treated as belonging to the Tatas.

15. Table V shows some of the important Companies of the Birla House which are now not a part of the House, as per MRTP Act registrations. It is significant to note that many of these companies have a Birla as Chairman. A scrutiny of the shareholding structure and the Boards of Management would also clearly show the degree to which the spirit of the MRTP Act has been violated. In the case of Birlas the excluded companies are the largest in number.

16. Impact of the exclusion of many large companies from the Houses may be seen in terms of the reduction in the assets of the individual Houses. In the case of the Tatas, the estimated total assets for 1966 (<u>ILPIC</u>) were:

Table - IV

Showing Some of the Important Companies which are not Registered under the House of Tatas

(Rs. crores)

S.No.	Company	Assets in 1966	Assets in 1977
	1	3	4
1.	Gokak Mills Ltd.	4.06	13.39
2.	Goodlass N Nerolac	2.63	7.09
3.	Tata Merlin	1.01	6.85
4.	Tata Mills	8.27	13.54
5.	Investment Corporation	5.93	6.74
6.	Tata Finlay	2.21	38.74
7.	Tata Hydro-Electric	1.08	--
8.	General Radio and Appliances	2.32	--
9.	Indian Standard Metal	1.61	--
10.	Indian Cement Co. Ltd.	0.04	0.30
11.	Tata Industries	1.87	--

Table - V

Showing Some of the Important Companies which are not Registered under the House of Birlas

(Rs. crores)

S. No.	Company	Assets in 1966	Assets in 1977
	1	2	3
1.	Birla Cotton, Spinning and Weaving	5.51	10.34
2.	Electric Construction & Equipment Co. Ltd.	6.29	15.71
3.	Indian Rayon Corpn. Ltd.	7.26	24.37
4.	Oudh Sugar Mills Ltd.	5.06	16.70
5.	Pilani Investment Corporation	6.48	11.65
6.	Universal Cables Ltd.	3.58	11.86
7.	Upper Ganga Sugar Mills Ltd.	3.95	12.25
8.	New Swadeshi Sugar Mills	2.30	4.96
9.	New India Sugar Mills Ltd.	1.80	2.25
10.	Tungbhadra Industries Ltd.	1.73	6.66
11.	Universal Electrics Ltd.	1.04	5.07

Rs. 505.36 crores. The assets of the Companies not covered by GICU were seen to be Rs. 44.60 crores; a lowering of assets by nearly nine per cent. In the case of the Birlas, the ILPIC estimate of the House assets was Rs. 457.84 crores whereas if GICU was the basis the Birla House would be seen to have had only Rs. 312.04 crores; a lowering of assets by nearly 32 per cent. (14)

17. By adopting differing criteria the composition of Houses can get varied. (The size of the assets under control of the House would correspondingly get reduced by the extent to which House Companies get excluded. In this manner, one could show that it is possible to evolve criteria and definition under which the House concept may get reduced to a single company. By adopting two sets of definitions, very substantial reduction in assets of a House can be shown to have taken place. This is now being advocated by some persons. Let the Houses go for voluntary break-ups, it is suggested. If this is how we face business and economic concentration, why talk of concentration. Follow the Indian proverbial dictum:'I see no evil, I hear no evil

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(14) A detailed discussion on this aspect follows in a later section.

and I smell no evil! (15)

Corporate Practices as Basis for House Composition

18. It is only natural to ask: what should be the criteria for determining composition of a House? And who should be responsible for this work? One answer to these questions would be in assigning the responsibility to MRTP Commission. This indeed has already been suggested by the Sachar Committee. But one limitation of all statutory commissions is that they have to operate within the narrow framework of legal provisions -- which is quite different from the corporate and business realities. Once the criteria for determination of a House composition is made public (as would be a pre-requisite for administration of any enactment) an army of law experts and corporate advisers would get into operation to suggest the House managements to affect changes in ownership and company structures to avoid attraction of the legal provisions. In the organised corporate sector it is quite easy to make adjustments. The law may seem to have been administered but the spirit of the law can be conveniently evaded. Those who have known

(15) With due apologies to Gandhiji.

of the functioning of Government Departments and regular Commissions in India would only be able to appreciate the strength of the above argument. The argument would hold even more true if a Government Department was to be assigned the above responsibility. However, since there has to be some independent and official agency to suggest and administer the criteria, the responsibility cannot be left to any group of social scientists either. It seems more appropriate that while a broad set of criteria may be indicated in the MRTP itself, there should be an ever riding clause under which association of a company with a House could be decided after taking note of the Corporate practices.

19. Additionally, there should be a provision to appoint a committee of experts which should examine composition of Houses every five years. The Committee could be on the lines of the Finance Commission. For achieving better results, studies at Universities should be encouraged and some special research centres established to undertake studies on a continuing basis.

CHAPTER - IV

THE CONCEPTS.
BUSINESS CONCENTRATION AND ECONOMIC POWER

1. Concentration is a statistical measure. One can measure it in terms of the share held by a unit, or a Group, in the output of a commodity or as percentage share in the wealth and means of production in a sector. A number of studies have revealed that the working of the planned economy has "encouraged the process of concentration by facilitating and aiding the growth of big business in India". (1) Empirical evidence on the relative share and growth of big Business in India shows a few Houses had expanded fast during 1937 and 1950, the combined share of the twenty Business Groups had risen significantly during the period of 1951-58. The share of the top four Groups in the private corporate assets increased from 17.9 per cent (1951) to 22.34 per cent (1958). The practice of taking paid up capital (PUC) or assets as the basis for examining changes in the degree of concentration in the private corporate sector was also adopted by the Monopolies Inquiry Commission, the Industrial Licensing Policy as well as the MRTP Act 1969.

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(1) For trends in business concentration, see Chapter-V.

2. The measure of concentration in private corporate assets has invariably been treated as a measure of concentration of economic power.[(2)] 'Economic power' undoubtedly emerges from the assets under control of a House; but control of assets, by itself is not an adequate measure of the power of a Business Group. The basis for determining 'economic power' would have to vary with the context in which the power is sought to be identified. For instance, size of House assets may indicate the relative size of the 'empire' but it does not show how powerful or influential the House is in the social, political, administrative or even business

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(2) While Hazari noted that the percentage share in the assets was a quantitative measure whereas economic power had qualitative character, in practice, he equated concentration of economic power with asset concentration. Hazari, Structure of Corporate Sector, p. 3. Conceptually, Hazari confined the term monopoly to monopoly in particular markets or industries and referred to monopoly of capital as 'concentration' of economic power". Hazari, R.D. (ed) Monopolies and Their Regulation in India, Papers Read at the Indian Economic Conference, Calcutta, 1966, Popular Prakashan, Bombay, p. vii. See also MIC Report p. 122 and Chapter I "Concentration of Economic Power: Defined" pp. 1-2.

life of the country. Let us take an instance where two corporate entities have exactly the same size of assets; in one case the provision of supplies and raw materials made by Government and the entire output was procured and distributed by the Government; in the other case there was no involvement of the Government and the enterprise was free to fix prices and bargain in the open market. Could one say that the 'economic power' of the two entities was the same? Obviously, the second company enjoys a much higher degree of power in the market than the former. Similarly, the economic power of a large and monopoly company would be higher than that of a company operating in a competitive or regulated area.

3. 'Economic Power' in India is a matter of public concern for two broad reasons. Firstly, 'economic power' when seen in the context of business, industry and trade implies domination and monopoly with consequences like exploitation of consumers, high profits and adoption of predatory practices - all those developments which do not allow competitive market and private initiative to contribute its best in service of the society. And secondly, public concern exists because of the capacity of big

business Houses to influence public policies, administrative systems, political parties and other social groups. The former is '<u>business power</u>' and is basically restricted to decisions within the corporate private sector. The later is <u>economic power</u> in terms of capacity of big business Houses decisions with regard to formulation and implementation of public policies which concern a much wider area of operations. 'Economic power' <u>vis-a-vis</u> government and other public institutions emanates from the size of the 'financial resources' at the command of a House and its capacity to bestow patronage -- may it be through offering direct financial help, appointments as distribution or supply agents, recruitment to positions carrying high salaries or in providing ordinary facilities like guest house accommodation, medical care, allowing use of car or taking care of other personal needs of those who happen to enjoy political or government power. Strength of Houses is not because large resources are under their command. Viewed in this limited perspective, Finance Minister of a country has command over far larger resources, when compared to any one single House. The difference lies in the fact that Finance Minister is accountable to Cabinet, Party and Parliament for each paisa collected or spent; but

private managements have no such public accountability. Size of assets under control of a House by itself does not suggest nature and capacity of the House to exercise influence in the country's overall life.

4. '<u>Economic Power</u>', when equated with size and degree of asset concentration, only suggests <u>market power</u> of a business House to face market onslaught, reap advantages of 'internal economies' like benefits of large scale production, higher capacity to take up risky and new investments, undertake specialization, set up research and training organizations, and capacity to borrow and mobilize financial resources. In its worst form market power may be exercised to destroy competitors and eliminate competitive initiative. In contrast to this, operation of economic power in realm of public policy, political life and administration seeks to influence public policies (not only fiscal, industrial or monetary but even foreign, educational and social ones) to give an orientation that would protect and further their own interests. In operational terms 'economic power' is exercised to obtain industrial licences in otherwise prohibited areas and to establish monopoly position, preference in obtaining priority in sanction of

scarce raw materials, easy and cheap finance and sympathetic and favourable consideration from financial institutions, public agencies and Government.

5. Seen in this perspective, economic power of big business Houses, individually or collectively, cannot be measured in terms of assets. However, for those who would like to use assets as one indicator of 'country-wise' or monopoly capital concentration, some of the limitations of 'assets' need to be pointed out. Firstly, assets under control of Houses are taken from company Balance Sheet of assets, which is quite different from the real worth of the assets and refer to 'book value'. Book value is neither as indicator of market value of the assets nor does it reflect the replacement value of the assets. Book value of assets is arrived at by reducing depreciation from original purchase prices. Therefore, normally, assets purchased thirty or fifty years back would continue to be treated in terms of prices then prevailing. Additionally, in India, as we all know, fiscal policies of Government allow for a high level of depreciation on capital investments. Within a period of 5-6 years book value of machinery, practically comes to zero. Older a company, larger the element of underestimation of its assets.

6. *Secondly*, assets of a corporate entity are based on the official purchase value. In India, all large industrial undertakings have imported machinery for which the requisite foreign exchange was made available to them at official exchange rate. Invariably, market value of imported machinery is substantially higher than that of the machinery that is locally produced. This is so for two reasons: *one*, official exchange rate for a long period was much lower than the open market rate; and *two*, permission to import machinery was not easily granted. All imported machinery carries premium which does not get reflected in assets, as shown in Company Balance Sheets.

7. *Thirdly*, for establishment of nearly all large undertakings, whether in public or private sector, Government help is obtained in acquiring land for construction of industrial projects. It is not only convenient but also cheaper to get allotment of land from or through Government. In fact, it has been seen that large areas of land were made available at nominal price by nearly all State Governments, to attract location of big sized private sector projects. Similarly, large industrial

projects get advantage of government quota at control prices (which are invariably lower than open market prices) for its supplies of cement, iron and other raw materials. Book value of land and buildings, therefore, is a gross underestimation.

8. Underassessment of fixed assets apart one has to also appreciate that size of assets of an industrial concern does not take note of concessions, sanctions and other 'rights' which an undertaking acquires without incurring financial expenditure. For instance, Hindustan Aluminium, an enterprise of the Birlas entered into an agreement with U.P. State Government under which the power supply to it was made available at a subsidized rate. Nearly, all large industrial enterprises enjoy the privilege of securing annual supplies of scarce or imported raw materials at a price which is substantially lower than the open market price. Industrial assets do not quantify value of the 'associated sanctions and concessions' which go a long way to determine the market value of the assets of an undertaking -- which are in a way indicators of the business importance and profitability of investments.

9. Assets of a corporate undertaking also do not reflect the monetary value of technical collaborations, patents and other material agreements, which place a concern at a much higher level in the market vis-a-vis others. For instance, net assets of a trading concern may be insignificant but 'agency agreements' and consumer acceptability of products handled by it can be such that market value of the trading unit may be a multiple of the book value of its assets.

10. Estimates of Assets, under control of a House, when based on Balance Sheet data, would be on the lower side; and additionally, these do not reflect market value or business worth since 'assets' do not take note of rights acquired, other than physical goods. Therefore, it appears that asset concentration cannot be an appropriate basis even for purposes of the limited objective of Business Power, leave aside economic power in relation to the society in general.

11.. Size of annual turnover(TO) has sometimes been suggested as a measure of economic power of a business House. Reasons for adopting 'turn over' instead of

'assets' may be: One, by taking annual aggregate turn-over of a House, to a large extent one gets over the problem posed and price changes over time. Turnover data can be adjusted for price rise to meet the argument that assets of new and old companies cannot be equated. One can even take note of industrywise price trends and make adjustments for sectoral price variations. It could even be possible to construct a composite Index of the relative importance of business power enjoyed by different Houses and note changes in the economy.

12. Apart from the conceptual limitations, a basic lacuna in the exercises, undertaken so far, to assess changes in asset concentration has been in the unrealistic assumptions made for estimating aggregate assets of the private corporate sector. To estimate aggregate assets of the sector, methodology adopted by Sastri and Antony, Hazari and the MIC was to blow up the PUC, of the non-government and non-banking corporate sector, by the RBI observed PUC to asset ratio for the year.(7) The basic assumption in the estimation of

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(7) See: Sastri and Antony "Capital Formation in the Corporate Business Sectors in India" in Rao, V.K.R.V. and others (ed). Papers on National Income, vol. II, Asia, 1960, Bombay, p. 163; Hazari. The Structure of the Corporate Private Sector, p. 15. INDIA, MIC Report, p. 122.

assets of the corporate private sector was that there __is__ a definite and precise relationship between PUC, assets and capital stock. The relative importance of the Houses, has, in substance, been observed in relation to the PUC of the sector. The methodology has a built-in-bias in favour of Large Houses; resulting in estimates which are an underestimate of trends and degree of asset concentration.(8)

12. Size of turnover of a House would reveal annual scale of operations of the House in relation to others and the economy. This itself is important; but it may also suggest the size of annual purchases of the House. The size of purchases is significant because it gives an indication of the magnitude of the transactions which offer opportunities to patronize and manipulate prices in a manner that could leave certain underhand margins in all purchases and sales. Corporate sector, all over the world, is known to accept commission, a percentage of the value of the transaction, as a normal business practice. Many

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(8) See, Goyal, S.K. "The Concept and Measurement of Concentration", a paper submitted at the Seminar on Monopoly and Public Policy in India, University of Bombay, 16-18 March, 1970.

a time such expenses are shown under respectable expenditure heads: sales promotion and public relations. What holds true of purchases, is equally true of sales.

13. Statutory price control over Indian industries under the Essential Commodities Act is limited to only a few commodities and this too is more of informal regulation than formal and statutory.(9) The area of 'product monopoly' is very large.(10) As a result, distribution agencies for a wide variety of commodities carry premia. The decision to appoint agencies, obviously, rests with managements of supplier undertakings. Granting of 'selling agency', particularly if products involved had large ready market and were of essential nature or were in short supply,

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(9) For a discussion on nature of price control in India, See: Goyal, S.K. "Nature of the Price Problems -- Some Questions", Seminar on Economic Policy Options, September 24-25, 1977, New Delhi (Mimeo).

(10) It is interesting that while MIC showed existence of High level of concentration in '64' out of 100 products selected on the basis of importance to the ordinary consumer, the number of Dominant undertakings under the MRTP Act, are only 35. See MIC Report, pp. 30-32.

resulting in higher market price than prices fixed by Government, is a matter of favour. While size of product-wise turnover of Houses may help to provide an indication of the product monopolies, assets do not give any such information.

14. Turnover would appear to be a somewhat better basis for measuring even business power than assets. But it cannot directly be taken as basis of 'economic power'. More relevant data would be the size of annual publicity budgets of Houses. Publicity expenditure can be directly used to patronize national and regional press, influence editorials and news display. In a democratic society editorials and slant of news reporting gets quickly noticed by Government, Parliament and political parties. Use of advertisements for influencing public opinion or explaining management viewpoint is quite common. It is not a matter of sheer coincidence that apart from publicity budgets, all important Houses own newspapers or chains of newspapers. If Birlas own <u>Hindustan Times</u>, Jains, <u>Times of India</u>; Goenka R.N., <u>Indian Express</u>; and Statesman is known to be jointly controlled by prominent industrialists, including Tatas. Power of the press cannot be overemphasized.

15. To study techniques employed to influence public policies one would have to understand the *modus operandi* i.e. the operational system of different 'Houses'. The institution of Public Relations Officers is known to be a powerful one, in getting individual cases of government approvals expedited. More important, however, are the attempts made to influence personalities who count in politics, Parliament and government. The first task in gaining influence over the political and administrative system is in establishment of personal contacts and obtaining of opportunities to put forth business viewpoint. Second stage in the process is reached when persons occupying positions of authority are pursuaded to accept small favours from industrialists and businessmen. To come closer to political personalities, representatives of a House may, initially, make voluntary offer to mobilise financial resources for election or party activities. It may, additionally, make available infrastructural facilities of House Companies (Guest Houses, transport, and assistance of employees) or grant lucrative sales agencies which ensure regular income to relatives, friends or others (on recommendation of the concerned political personality). Once a House helps a political party

and its leaders start depending upon House support for quick resource mobilisation, third stage in exercising influence on public policies can be said to have reached.

16. It may be debatable whether public representatives exercise real government authority or the top level civil servants, who are otherwise supposed to be functioning under directions from political representatives. The fact, however, does remain that at operational levels, decision making authority is exercised by civil servants only. This is well understood by private managements and adequate steps are taken to establish direct communication channels with them at all levels of administration. It would be wrong to describe 'socialization' as corruption; and yet it is hard to draw a clear distinction between the two. Personal contacts with civil servants, particularly the ones in economic ministeries, prove great asset to business community. More established an industrialist, the easier it is to have access to top civil servants. Senior industrialists come in contact with top government servants at various levels, apart from visiting them in connection with work relating to their business. From time to time, private industrialists

are appointed on Government committees and included in delegations alongwith senior civil servants. One also comes across cases where civil servants have been nominated to Boards of Managements of private companies. But the most significant instrument of establishing meaningful links at the top level is by arriving at an understanding for post-retirement employment and accommodating relations in one or other enterprise of the House. Senior civil servants wishing to join private employment are required to obtain prior government permission. This obligation, however, is very often circumvented by taking up advisory or consulting designation with House Trusts. It would be a useful line of investigation to prepare a list of retired civil servants or immediate relations of the serving civil servants who are on pay rolls of companies associated with business Houses.

17. Economic power of a private large business House is based on the fact that the managements of private companies have no public audit, no given rules for employment or fixing salaries, no fear of questions in parliament, and no appearances before Public Accounts Committees.

The discretion to manage a company is total. Thus, while examining the question of economic power in private hands one cannot limit onself to any one indicator i.e. assets or turnover under control of a House. House operations need to be seen in terms of relative strength in granting patronage and causing material benefit to those who are in position of authority.

18. Closeness of Indian Business Houses to Indian political parties and their leadership is nothing new. The seeds of it were sown during the national struggle for political independence of India. Birlas had never made any secret of their close contacts with the Indian National Congress.(11) The House of Tatas provided

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(11) Many top leaders of national movement and their families were helped by Indian businessmen. For instance, Jawaharlal Nehru spent summer, at J.K. Singhanias Guest House at Mussoorie; Purshotamdas Tandon was virtually a family member of Singhanias, Birlas hosted Gandhi and many professionals under employment of Business Houses assisted the Congress in secretariat work. See:Kochanek, S.A. Business and Politics in India, Berkeley, 1974 and Birla, G.D. In the Shadow of Mahatma, Orient, Calcutta, 1953.

secretariat to National Planning Committee, Jamnalal Bajaj continued as Treasurer of the Congress Party. Swatantra Party had a host of industrialists associated with it. During the Emergency 1975-77, a number of industrialists belonging to large Houses were actively associated to raise funds for the ruling party. (12) With Janta Party coming in power, the connections of business Houses have not got severed. (13) The family

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(12) K.K. Birla and Charanjit Singh (Coca Cola) were well known in mobilising funds, Jeeps and other support to Indira Gandhi and M.A. Chidambrum (Murgappa Chatiar House) accepted to be Chairman of Maruti, a Sanjay Gandhi enterprise and number of industrialists had supported the small car project.

(13) Some examples of close association with private business are:

Viren Shah of ukand Iron (a Bajaj House Company) is now a member of Janata Executive; H.M. Patel, Home Minister, a Rtd. I.C.S. and with alleged involvement in Mundhra Case; Pilloo Mody, formerly a member of Swatantra Party (which was promoted by Bombay Industrialists); Biju Patnaik, himself an industrialist; V. Shankar, Principal Secretary to Prime Minister (a Rtd. I.C.S.) was Director of the FICCI promoted Foundation for Scientific and Economic Research upto March 1977, when Janata came to power; and N.A. Palkhiwala, India's Ambassador to U.S. was Director of Tata Companies.

relationship of Morarjibhai Desai with Kriloskars and the closeness of Bajaj House to the Janata political leadership cannot be wholly taken a matter of coincidence. Association with ruling party and Ministers may not always be exploited by business Houses to further House interests; but the very fact that a particular business House is seen to be close to the power structure, gives the concerned House an added prestige, and therefore capacity to exercise influence on public policies. (14) Government patronage means a lot anywhere but in an economy of the type of India, it can help a house to grow in a phenomenal manner. (15)

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(14) Former business associates and employees of two Houses, Tatas, Birlas, or private industrialists of their own standing are known to have held important portfolios in Central Cabinet during post-Independence era; John Mathai (Tata Associate), Shunmukham Chetty and T.T. Krishanamachari (known to be close to Birla), K.C. Pant (an employee of a Birla Company) --- all Finance Ministers; K. Santhanam (editor of a Birla Newspaper) a Minister; Sachin Chowdhry, S.S. Ray, A.K. Sen (each one a Standing Corporate Lawyer of Companies of Birlas). B.P. Sinha, former Chief Justice of India, accepted Directorship on a Mundhra Company.

(15) See ILPIC Report, particularly Chapter IV, for examples in which favourable treatment helped growth of individual houses in a substantial manner.

(19) Power to influence, when derived purely from non-economic sources, does not last; but political power can be employed to build a quick and a wide economic base; and later, it perpetuates itself. Risks associated with expansion of assets under political patronage are higher if House size was small. The element of risk to top houses is negligible, as a wide base has already been built up. Whatever changes in political system take place, large Houses continue to survive and flourish. May be, a House comes under shadow for a while; but soon it would pick up tempo in its expansion, may be , with a vengeance. It is achievement of such a scale and diversification which gives continuing economic power to a House. Growth of Houses, stabilizes itself in a permanent position of influence and bestower of patronage which has to become a matter of serious public concern. In India we have already reached this stage, in complete contrast to socialistic pretensions of Government and all political parties. It has to be now recognized that irrespective of strong hatred and condemnation of 'feudal capitalism' that may be voiced by positions in authority, very little can be done to tame the top business houses in India.

Individuals, who are aggressive, vocal, politically important or seen to be legendary figures and claiming themselves to be men of political destiny, are in for real frustration if they fail to assess strength and character of the all-pervading character of 'economic power' enjoyed and exercised by business Houses in India.

20. 'Economic power' cannot be measured statistically; the degree of concentration can be. To equate asset concentration in private corporate sector with economic power is not only unrealistic but can also prove to be misleading. Size of turnover and assets have undoubtedly, to be treated as an important ingredient of economic power but these are inadequate in themselves. To identify the magnitude and nature of economic power enjoyed by Big Business in India, one would have to take note of all such factors which give power to influence and distribute patronage. In addition to assets, turnover and profits of Houses, one has to take note of the (i) nature of products produced and economic activity, (ii) locational spread of economic activity, (iii) character of market -- fully, partially or non-regulated,

(iv) relationships with political parties and leadership, (v) associations and status with the administrative system, (vi) size of the public relation set up and publicity budget, (vii) acceptability of the management and their standing with trade and business associations, and positions held in banks and other financial institutions; (viii) nature of business associations with international business, business activities outside India, (ix) broad and rough estimate of the size of 'unaccounted money', emanating each year with the House; and (x) number of employees receiving high salaries. It is only too obvious to mention that company donations to political parties and number of employees with political and civil service background would also need to be examined if significance of economic power is sought to be discovered.

21. Another conclusion needing emphasis is that proportionality approach (i.e. measuring percentage of share held) to the question of concentration of economic power has very serious limitations. Business Houses enjoy economic power and influence which is relating to both, absolute and relative size <u>vis-a-vis</u>

others, when taken individually and not collectively. The influence exercised is always disproportionately larger than what one may see in size or share in the overall.

22. The term 'Economic Power' has been used differently and there has been only a limited discussion at political, academic or government level. The question of economic power cannot be discussed within the narrow framework of economics. It is a subject matter of political economy. Studies in the area can be undertaken on the basis of extensive data and information on the functioning of corporate and industrial sectors. Individual researchers cannot deal with the subject, comprehensively. The need for institutional support and willingness on the part of Government is obvious. But, if one strongly suspects the existence of private economic power, can one afford to be optimistic about research being supported in this area? Would not economic power of Big Business operate to frustrate institutional research and investigation efforts on the subject? One has yet to wait for anything meaningful to happen; but establishment of institutes for the so-called research have already come up, e.g.

Foundation for Scientific and Economic Research (housed in FICCI building), Birla Institute for Research, and House-sponsored consultancy centres. The publications brought out by them have already started bearing fruit. (16)

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(16) See: Venkatasubhiah, Enterprise and Social Change Vikas, Delhi, 1977; Thakurdas, P., Tata, J.R.D. Birla, G.D. and others, Memorandum Outlining A Plan of Economic Development, (1945); and 200 Top Industrial Houses (ESRF of FICCI). The number of papers circulated to a Committee of Janata Party, which is inquiring into the subject of monopolies, Houses and economic power is an indication of the type of research activity undertaken under sponsorship of Houses. The two main points now being emphasized are: (i) there is no case for regulation of private monopolies as this would prove to be counter productive; and (ii) the degree of concentration in India declined during 1972-76, i.e./ Mrs. Gandhi era! /during

CHAPTER V

TRENDS IN BUSINESS CONCENTRATION 1937 to 1975

1. This chapter is an attempt to examine broad trends in 'business concentration' (1) in India since 1937. The year 1937 has special significance to the Indian economy as this year saw installation of Congress led Governments in many provinces of India. In absence of the relevant time series and comparable data, one has to base the study on official reports and other studies undertaken at different points of time. Each study, in view of the objectives it placed before itself, evolved its own definitions and concepts. Therefore, the data presented is, strictly speaking, not comparable. To achieve better comparability we have adjusted the data, to the extent possible. And secondly, the comparison is confined to periods for which comparisons can be made. We have not constructed a running series. As purpose of this Chapter is to examine only the broad direction of change in business concentration, we consider the available data and studies to be adequate for this limited objective.

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(1) We are distinguishing between business concentration and economic concentration, the former refers to PUC and asset and the later is related to the capacity of Houses to influence public policies, i.e. economic power.

Table - I

Showing PUC of European and Indian Business Houses During 1937 and 1947*

(Rs. in crores)

Sl. No.	Houses	PUC 1937	PUC 1947	% 1937	% 1947
	1	2	3	4	5
	European:				
1	Calcutta	36.96	35.23	58.21	31.25
2	Bombay	1.10	2.12	1.74	1.88
3	Madras	1.25	1.37	1.98	1.22
4	North India	1.43	1.44	2.26	1.27
5	(a) Sub Total	40.76	40.76	64.19	35.62
	Indian				
6	Calcutta	2.57	26.51	4.05	23.51
7	Bombay	10.94	35.75	17.24	31.70
8	Madras	..	..	..	..
9	North India	2.17	2.41	3.42	2.13
10	(b) Sub Total	15.69	64.66	25.71	57.35
	Mixed				
11	Bombay	7.05	7.93	11.10	7.03
12	(c) Sub Total	7.05	7.93	11.10	7.03
13	Grand Total (a+b+c)	63.50	112.74	100.00	100.00

* Compiled on the basis of data collected by Ray, Ranjit K., Industrialization in India, pp. 260-61.

<u>Changes During 1937-1947</u>

2. Growth of Indian Business Houses is a post 'Thirties phenomenon. Private organized corporate sector in India, prior to the out-break of the World War II, was dominated by British Capital. (2) Only a few Indian Houses could be considered as of significance. Table-I shows the relative importance of Indian and foreign business Houses. Out of the total paid up capital (PUC) of all important business Houses (3) aggregate share of Indian

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(2) For an account of the importance of foreign capital in India during the pre-independence era; see: Rungta, R.S., <u>The Rise of Business Corporations in India, 1851-1900</u> Cambridge, 1970; Bagchi, A.K. <u>Private Investments in India: 1900-1939</u>, Cambridge, 1972; Ray Rajat K., <u>Industrialization in India: Growth and Conflict in the Private Corporate Sector: 1914-1947</u>, Oxford, Bombay, 1979; Kidron, M. <u>Foreign Investments in India</u>, Oxford, New York, 1965.

(3) Business Houses during the period were mainly Managing Agency Houses and each House was seen independent of others. For instance, Tata Hydro-Electric and Tata Sons were treated as independent of each other as also was true of British Houses, many of them having common control in a company operating in Britain.

business Houses was only 25.7 per cent in 1937. The relative importance of the Indian Houses, however, underwent a phenomenal change; their share improved from 25.7 per cent (1937) to 57.35 per cent (1947). In 1937, there were only three Indian Houses, each with PUC of more than Rs. 1 crore as against fifteen Houses of this size, with foreign control. By 1947, the number of Indian Houses with substantial PUC (more than Rs. 1 crore) doubled, i.e. six.

3. The combined PUC of Indian Houses increased from Rs. 15.69 crores in 1937 to Rs. 64.66 crores in 1947. In contrast to this, share of the European Houses remained stagnant during the period -- in fact, it declined, though marginally. One also observes that the European organized business, in 1937, was mainly concentrated in Calcutta and Madras whereas the stronghold of Indian business, was Bombay. By 1947, Indian capital, expanded its base to establish a significant position for itself in Calcutta too. From a share of 6.5 per cent in Calcuttaain 1937, its relative position was 42.9 per cent in 1947. The Bombay based Indian Houses also enlarged their capital base, in a significant manner. Indian Houses of North India experienced a decline.

4. The expansion of Indian Houses, as indicated by changes in PUC, was not shared uniformally. Out of the net addition to the PUC, during 1937-47, as shown in Table II, share of the Birlas alone was more than <u>two-fifths</u>; other important beneficiaries were: Tatas (27.13 per cent), Walchand (12.25 per cent) and Morarji Gokuldas (11.26 per cent). The PUC of the House of Birlas multiplied twelve times, from Rs. 1.79 crores to Rs. 21.85. The PUC under control of Dalmias, declined. While a number of new Indian Houses emerged on the scene, the relative position of most other Houses underwent only a marginal improvement. Within the Indian controlled organized business, the House of Tatas, which accounted for nearly <u>two-thirds</u> of PUC in 1937, was left with only 36.73 of the PUC; and the Birlas share went up from 11.4 per cent (1937) to 33.8 per cent (1947).

5. The two important reasons, for enlarged PUC base of the Indian Houses, were: (i) promotion of a very large

Table II

Showing Changes in the P.U.C. under control of Indian Houses 1937-1947*

Rs. crores: Figures in brackets are percentages to total

S. No.	House	1937	1947	Increase
	1	2	3	4
1.	Birla	1.79 (11.41)	21.85 (33.79)	20.06 (40.97)
2.	Tata Hydro-Electric	--	9.67 (14.96)	9.67 (19.75)
3.	Scindia	N.A.	6.00 (9.28)	6.00 (12.25)
4.	Tata Sons	10.46 (66.67)	14.07 (21.77)	3.62 (7.38)
5.	Walchand	0.49 (3.11)	6.00 (9.28)	5.51 (11.26)
6.	Ram Kumar Agarwal	--	1.00 (1.25)	1.00 (2.04)
7.	Govan	0.33 (2.10)	1.28 (1.99)	0.95 (1.95)
8.	J.K.	N.A.	0.89 (1.38)	0.89 (1.82)
9.	Thapar	N.A.	0.74 (1.51)	0.74 (1.51)
10.	Janok Nath Roy	0.33 (2.11)	0.80 (1.24)	0.47 (0.96)
11.	Bangur	--	0.45 (0.70)	0.45 (0.92)
12.	Surajmull Nagarmull	--	0.32 (0.50)	0.33 (0.66)
13.	Narang	0.24 (1.53)	0.27 (0.42)	0.03 (0.06)
14.	A.H. Dawood	0.45 (2.87)	0.45 (0.70)	0.00 (0.00)
15.	Dalmia	1.60 (10.20)	0.85 (1.31)	-0.75 (-1.53)
	Total	15.69 (100.00)	64.66 (100.00)	48.97 (100.00)

* Based on: Ray, Rajat K. Industrialization in India pp. 260-61.

number of investment and trading companies,[4] and (ii) take over of companies which were formerly under foreign control.[5] The Second World War offered very rewarding opportunities for Indian Houses, who were mainly in trading business, to

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(4) As many as 151 of the Birla companies were reported to have survived upto 1958, in spite of a fairly large number of liquidations and amalgamations. Important companies of the Birlas, established during the period, and which explain a large part of their assets, are: Hindustan Motors (1942), Taxmaco (1939), Gwalior Rayon (1947) and United Commercial Bank (1943). Tatas promoted some of their important companies during this period, e.g., Tata Chemicals, and Indian Tube (1940), Investment Corporation of India (1937), Investa Industrial (1941), Investa Tools and TELCO (1945). Tatas raised major part of FUC from the Nizam of Hyderabad and some princely states and its entire preference capital from the Central Government. See: Hazari, R.K., The Structure of the Private Corporate Sector, Asia, Bombay, 1966, pp. 43-59.

(5) Birlas acquired controlling interest in a number of tea, coal and insurance enterprises which were under British managements. Tatas, acquired minority interests in many foreign companies and became junior partners, which helped them to take-over their management in later period. See: Hazari op. cit. pp. 43-59.

make high profits, which could be used to buy controlling shares in public limited foreign companies. (6) To take-over foreign companies appeared to be nationalist cause; politicians were to throw out the colonial rulers, and the Indian businessmen, the foreign capital. (7) The process of take-overs of British companies by Indian Houses was facilitated by the fact that managements of foreign companies were panic stricken due to the increasing hostility of virtually all nationalist political parties and local industrialists who were getting more confident of an early transfer

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(6) It is understood that the Houses did not pay the taxes and adopted variety of malpractices to conceal incomes. and defraud public exchequer. This prompted Government to appoint Income Tax Investigation Commission soon after Independence, to inquire into cases of tax evasion by House of Birlas and others. The Commission, however, was liquidated as a result of a Court decision. Some of the Inspectors'Reports were the basis for pamphlets like: Mysteries of Birla House, and Birlas and T.T.K. Indian Houses, it was alleged, were able to get protection and support from leadership of the Congress Governments in States.

(7) See Birla, G.D. In the Shadow of Mahatma and Venkatsubhiah, Enterprise and Social Change, and Ray, Rajat K. op. cit. G.D. Birla had supported the Congress Party and FICCI for long had been under his patronage. He, however, did not come in conflict with the British as no businessman could afford to come in conflict with Government of the day, particularly if it happened to be an alien one.

of political power from the colonial rulers to the national representatives. Tata House, initially enjoyed an advantage over other Indian Houses, due to their closeness to British and other ruling classes and their nearness to foreign capital. The Tatas have, in fact, continued their close business collaboration with some of the multinational corporations and other foreign companies.(8) In brief, while it may appear that Indian business, small and large, benefited during 1937-1947, the fact to be underlined is that in the Indianization process some Houses expanded in a phenomenal manner and the others, only modestly.

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(8) Tata House, being a leading <u>Parsee</u> business House of India, enjoyed more confidence of the British. For instance, in each executive of the Viceroy one of the associates of Tatas was a member. TISCO had the distinction of obtaining an ICS officer on deputation from Government. See Kochanek, S.A. <u>Business and Politics in India</u>, Hazari, op. cit., and Ray, Ra[illegible], K. <u>op. cit.</u> The business associations have continued. The Tatas managed the largest number of foreign companies, till the abolition of Managing Agency System in India. Companies like: Associated Bearing (Swedish Subsidiary), Bradma of India (U.K.), Goodlass Nerolac Paints (U.K.), Henley Cables (U.K.), Merck Sharp and Dohme (U.K.), Tata Fison (U.K.), Warrior (U.K.) and Whiffens (U.K.) were managed by Tatas as in 1966. See: <u>ILPIC Report</u>, Appendix II. Some of these have now been taken over by Tatas.

6. A pioneering empirical investigation on growth and relative importance of twenty Business Groups, during 1951-58 was undertaken by Hazari.[9] The relative share of the twenty Business Groups in the 'net capital stock' of non-government corporate sector of India, was estimated to have increased from 26.4 per cent in 1951 to 32.6 per cent in 1958.[10] Similar trends were observed in terms of share capital, fixed assets, and gross capital.[11] The Mahalanobis Committee Report, on the basis of its studies, observed: "Despite all countervailing measures taken which have been recounted above, concentration of economic powers in private sector is more than what could be justified as necessary on functional grounds, and it exists both in generalised and in specific forms."[12]

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(9) Hazari, R.K. The Structure of the Corporate Private Sector of India, Asia, Bombay, 1966. An earlier draft of the study was the basis of Mahalanobis Committee observations on growth of concentration of economic power.

(10) Ibid, p. 4.

(11) Ibid, pp. 33-40.

(12) INDIA Mahalanobis Committee Report, p. 54.

Period: 1963-64 and 1966

7. Relative importance of the 75 Business Groups in the overall corporate private sector was estimated by the Monopolies Inquiry Commission (MIC) for the year 1964. The share of the 75 Groups was placed at 46.9. (13) Changes in asset concentration in the organized private sector during 1963-64 and end of 1966 are presented in Table-III. The percentage share of the 75 Houses in the aggregate assets of the private corporate sector, increased from nearly 40.17 per cent to 49.25 per cent. (14) To some extent, the degree of change may be an overstatement because the concept of a Large Industrial House, as defined by ILPIC, was more comprehensive than that of MIC. (15) The variations, therefore, may not be taken literally. The broad thrust in the asset concentration only needs to be underlined.

Period: 1969-75

8. Table IV provides an estimate of changes in the relative significance of top twenty Group of Inter-connected

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(13) INDIA Monopolies Inquiry Commission: Report, Delhi, 1965, p. 122.

(14) The MIC data is as on March 31, 1964 and the ILPIC data, as on December 31, 1966. The period covered, therefore is three years and not two.

(15) See Chapter II of this study: "Criteria for Determinin[g] of House Composition".

undertakings (GICU), in terms of assets, over the period of 1969-75. According to the Sachar Committee Report, "the latest figures for top 20 business Houses which are registered under the MRTP Act show that the value of assets has risen from Rs. 2,430.61 crores in 1969 to Rs. 4,465.17 crores in 1975; the percentage of increase of assets between 1972 and 1975 being 68.6". (16) The share of top twenty GICU (Houses) in the overall private corporate sector increased from 25.1 to 34.7 per cent. It is necessary to underline that GICU coverage is a limited one, for various reasons. Size of House assets, in particular, as arrived at by the MIC and ILPIC is not comparable with that of GICU. While MIC covered 75 Houses, each with assets of more than Rs. 5 crore, the GICU data on assets is confined to only top 20 Houses, each with more than Rs. 20 crores as assets. The number of companies under each individual House of GICU is much smaller. (17)

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(16) INDIA High-Powered Committee on Companies and MRTP Acts, Delhi, 1978, p. 251.

(17) For the differences; See, Chapter II in this Study.

Table - III

Showing Share of Large Houses in Assets of the Private Corporate Sector During 1964-1966*

(Rs. Crores)

Sl. No.	Year	PUC (ARC)	Assets to PUC ratio (RBI)	Assets of the Sector (Est)	75 Large House Assets	% Share of Large Houses in Total Assets
	1	2	3	4	5	6
1. March (MIC)	1964	1,642.3	3.95	6,487.08	2,605.9	40.17
2. December 1966 (ILPIC)		1,700.9	4.11	6,990.70	3,443.1	49.25

* Asset estimates for the private corporate sector as on March 31, 1964 and December 31, 1966 have been arrived at by adopting the same methodology as for was followed by the MIC i.e. blowing up of PUC for the year by the RBI observed Asset/PUC ratio for the year. To achieve better comparability Assets to PUC ratio has been taken from the same source, i.e. the RBI, Finances of Joint Stock Companies and PUC data is as given in the Administrative Reforms Commission, Working Group on Company Law Administration: Report, Delhi, 1968. The estimates for the year 1963-64 are at slight variance from the MIC due to differences in sources. Assets of the Houses for 1966 (December) are as estimated by the ILPIC.

Table - IV

Showing Relative Share of Top Twenty Houses (GICU) MRTP Act Registered Companies in the Assets of the Private Corporate Sector During 1969 & 1975*

(Rs. Crores)

Sl. No.	Year	PUC (C, LD)	Assets/ PUC Ratio (RBI)	Assets of the Sector (Est)	Assets of Top Twenty Houses (Sachar Committee)£	% Share of House (5 ÷ 4)
	1	2	3	4	5	6
1.	1969	2,259.4	4.28	9,670.23	2,430.61	25.1
2.	1975	2,630.1	4.88	12,834.90	4,465.17	34.7

* See footnote to Table III on methodology adopted for estimation of Assets of the private corporate sector.

£ Source: INDIA <u>High Powered Expert Committee on Companies and MRTP Acts</u>, Delhi, Aug. 1978, p. 251.

9. In absolute terms, the size of assets and the number of Houses has grown, significantly. Unfortunately, the Company Law Department or any other agency, does not maintain up-to-date records on all Houses or Companies with assets of Rs. 5 crore and more. One cannot, therefore, identify the actual increase in the assets or the number of Houses since 1964. The presently available data is for GICU, (Houses) each with assets of Rs. 20 crores and above. In absence of comprehensive information on comparable basis we have to limit our analysis to only such Houses which have assets of Rs. 20 crore and more. We may refer to them, for sake of convenience, as Big Houses. Table V shows changes in the number and assets of Big Houses, during 1964 and 1976. Table V also gives the number and assets of Large Independent Undertakings (LIU), each with more than Rs. 20 crore assets. The base year for LIU is 1966, and not 1963-64 -- as in the case of Big Houses.(18) The information for 1976 is from the Company Law Department

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(18) The MIC Report coverage was confined to only a few companies; the ILPIC Report had listed all large independent companies, each having assets of Rs. 5 crore and more.

Table - V

Showing Sizewise Distribution of Larger Houses
During 1964 and 1976*

S. No.	Range (Rs. Crores)	No. of Houses 1964	No. of Houses 1976	Assets 1964 Rs. Crores	Assets 1976 Rs. Crores	Increase Rs. Crores	% Share
	1	2	3	4	5	6	7
1.	20-50	21	28	655.16	989.64	334.48	5.11
2.	50-100	9	22	581.38	1482.98	901.60	13.78
3.	100-250	1	22	149.61	3264.45	3114.84	47.60
4.	250-500	2	1	710.44	256.54	-453.90	-6.94
5.	500-750	--	--	--	--	--	--
6.	750-1000	--	2	--	1955.40	1955.40	29.88
7.	Sub Total (Houses)	33	75	2096.60	7949.01	5852.41	89.44
8.	Large Independent (each with Rs.20 crores and more assets)	9	26	315.44	1006.69	691.25	10.56
9.	Grand Total	42	101	2412.04	8955.70	6543.66	100.00

* Big Houses for this study have been taken as those which have assets of Rs. 20 crores and more under their control, i.e. the MRTP Act definition for GICU.

The source for data in Cols. 2 and 3 is the MIC Report and for cols. 4 and 5, the Company Law Department.

For Large Independent Undertakings, (line 8) data is based on ILPIC report since MIC did not have a comprehensive list of LIUs.

press releases. Even at the cost of repetition it is necessary to underline that the size of assets of Big Houses for the year 1976 is a significant understatement.

10. During the period of 1964 and 1976, the number of Big Houses in India rose from 33 to 75; and the number of LIUs increased from 9 to 26. The combined assets of Big Houses and LIUs expanded from Rs. 2,412.04 crores to Rs.8,955.70 crores in 1976, i.e. an increase by 271.3 per cent in 13 years. In absolute terms the assets increased by 6,543.66 crores. The rate of expansion of the Big Houses and the LIUs was nearly the same. Secondly, during the period, two Houses acquired assets, each reaching a level of nearly a thousand crore of rupees. The number of Houses in the first three ranges underwent a substantial change. In 1964, there were only three Houses, each with assets of Rs. 100 crores and more, and in 1976 the Indian corporate sector had 25 such Houses.

11. The enlarged assets of the Big Houses have not been shared uniformally, as was true for 1937-1947 period. Table - VI shows changes in individual Big Houses during 1964

Table - VI

Showing changes in size of Turnover under Control of Big Houses

(Rs. Crores)

S.No.	House	Turn-over 1964 (MIC House)	Turn-over 1976 (GICU)	Increase 3 less 2	% Share in total	% Share
	1	2	3	4	5	6
1.	Tata	324.98	1138.28	813.30	18.0	250
2.	Birla	290.24	1122.04	831.80	18.4	286
3.	Mafatlal	43.11	373.25	330.14	7.3	765
4.	J.K.	58.29	245.45	187.16	4.1	321
5.	Thapar	70.61	284.88	214.27	4.8	303
6.	ICI	38.16	306.76	268.60	6.0	703
7.	Bangur	65.29	260.38	195.09	4.3	298
8.	Scindia	20.62	93.54	72.91	1.6	353
9.	Shri Ram	59.85	210.97	151.12	3.3	252
10.	ACC	44.13	160.63	116.50	2.6	263
11.	Kirloskar	21.46	180.13	158.67	3.5	739
12.	Walchand	54.02	143.78	89.76	2.0	166
13.	Mahindra and Mahindra	21.11	144.66	123.55	2.7	585
14.	Modi	20.82	190.32	169.50	3.8	814
15.	Sarabhai	54.29	183.27	128.98	2.9	237
16.	Macneil Magor	26.98	101.46	74.48	1.6	276
17.	K. Lalbhai	26.20	158.36	132.16	3.0	504
18.	T.V.S.	23.33	147.19	123.86	2.7	530
19.	Bajaj	29.25	147.06	117.81	2.6	402
20.	Khatau	14.23	215.35	201.12	4.5	1413
21.	Total	1306.97	5807.75	4500.78	100.00	

and 1975.[19] The net addition to the assets of 20 Big Houses, for which comparable asset figures are available, was Rs. 3,260.13 crores. Out of this, more than half of the increase was accounted for by the top four, <u>viz</u>. Birla, Tata, Mafatlal and J.K.. The largest beneficiary, in terms of assets increase, was the House of Birlas expanding by Rs. 681.91 crores) followed by Tatas with a net addition to their assets by Rs. 563.05 crores. Mafatlals added more than Rs. 210 crores; J.K. Singhania, Rs. 181 crores; and the Imperial Chemical (I.C.I., a Big House controlled from U.K.) added Rs. 162.10 crores.

12. Tabld VII (column 6) gives the growth of Big Houses in terms of percentage increase in assets since 1964. A word of caution needs to be added here: while looking at the percentage increase in assets of the individual Big Houses, the rates of change are likely to be higher in cases where the base-year House assets were, comparatively, smaller. It is seen that Modi House was the one which had 944.23 per cent increase in its assets; Kriloskar was the second

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(19) The Houses covered in Table-V are not the same as under Table-VI, as comparable data on some of the Big Houses is not available for the year 1964.

Table - VII

Showing Comparative Assets and Share of Twenty Big Houses (1964-1976)*

(Rs. crores)

S. No.	House	Assets 1964	Assets 1976	Increase in Assets	% Share of the House in total expansion	% increase in 13 years.
	1	2	3	4	5	6
1.	Birla	292.72	974.63	681.91	20.92	232.96
2.	Tata	417.72	980.77	563.05	17.27	134.79
3.	Mafatlal	45.91	256.54	210.63	6.46	458.79
4.	J.K.Singhania	60.10	241.23	181.13	5.56	301.38
5.	I.C.I.	36.89	198.99	162.10	4.97	439.41
6.	Kirloskar	19.12	152.47	133.35	4.09	697.75
7.	Thapar	71.90	202.24	130.34	4.00	181.28
8.	Scindia	46.96	177.08	130.12	3.99	277.08
9.	Bangur	77.91	195.33	117.42	3.60	150.71
10.	Shri Ram (DCM)	54.68	171.70	117.02	3.59	214.40
11.	Modi	11.28	117.79	106.51	3.27	944.23
12.	Mahindra & Mahindra	20.12	126.42	106.30	3.26	528.33
13.	Khatau	13.62	100.22	86.60	2.66	635.82
14.	T.V.S.	21.87	105.78	83.91	2.57	383.68
15.	A.C.C.	77.36	160.21	82.85	2.54	107.10
16.	Bajaj	21.14	101.51	80.37	2.47	380.18
17.	Kasturbhai Lalbhai	33.94	109.63	75.69	2.32	223.01
18.	Walchand	55.17	129.42	74.25	2.28	134.58
19.	Sarabhai	43.16	116.73	73.57	2.26	170.46
20.	M. Magor	50.34	113.35	63.01	1.93	125.17
21.	Total	1,471.91	4,732.04	3,260.13	100.00	221.49

* Data for 1964 from the MIC Report and for 1976 from the Company Law Department.

fastest growing House (697.75 per cent), followed by Khatau (635.82 per cent), Mahindra and Mahindra (528.35 per cent), Mafatlal (458.79 per cent), and I.C.I. (439.41 per cent). All the Big Houses, when considered individually, doubled their assets. The comparatively slow moving Big Houses are seen to be Mancil and Magor and Sarabhai.

13. Public attention has been mainly concentrated on Indian business Houses. By default, growth of (i) Large Independent Undertakings (LIUs), (ii) Indian subsidiaries of foreign companies and (iii) Branches of foreign companies has not received the requisite public attention. Some of the foreign companies, have witnessed asset expansion at a rate, which should have been a matter of concern for policy makers and public representatives. Table VIII and IX give lists of LIUs, and some important foreign subsidiaries. Asset changes for these have also been brought out. It is interesting to note that the rate of growth of LIUs was even higher than that of many Big Houses. The same was true of top 50 foreign companies.

Table - VIII

Showing Assets of Twenty Large Independent Undertakings (1966 and 1977)*

(Rs. Crores)

S. No.		Company	Assets (1966)	Assets (1977)	% Increase
		1	2	3	4
1.		S.P.I.C.	*	180.82	
2.	£	Indian Aluminium	29.41	96.18	227.03
3.		Baroda Rayon	8.90	89.54	898.22
4.		Ahmedabad Electricity	22.23	60.68	172.96
5.		Coromandel Fertilizer	30.71	56.54	84.41
6.	£	Calcutta Electric Supply	63.23	51.83	- 18.03
7.		Nirlon Synthetics	7.36	41.43	462.90
8.	£	Bata Shoe	13.76	38.09	176.81
9.	£	Glaxo	12.66	35.16	177.73
10.		Madras Rubber	7.31	34.54	372.50
11.	£	Ceat Tyres	8.38	32.51	287.95
12.		South India Shipping	21.46	32.04	49.30
13.	£	Good Year Tyre	10.48	25.25	140.94
14.		Indian Cables	11.26	23.35	107.37
15.		India Cement	14.01	22.55	60.10
16.	£	Oil India	90.79	202.59	123.14
17.		Larson Tubro	16.29	147.74	806.94
18.	£	I.T.C.	34.20	101.51	196.81
19.		Godraj	11.14	65.17	484.38
20.		Escorts	14.55	64.55	343.64
21.		Total	428.13	1982.07	362.96

* Established as a Joint Sector Project in 1970. The partners are Murgappa Chattiar Group and Tamil Nadu Government.

£ Subsidiary or a Branch of Foreign Company in 1966.

Table - IX

Showing Changes in Assets of 43 Subsidiaries of Foreign Companies each having Turnover of More than Rs. 10 crores in 1975

(Rs. crores)

S. No.	Name	Assets in (1966)	Assets in (1975)	% Change	Turnover in 1975
	1	2	3	4	5
1.	Hindustan Lever	33.10	49.52	49	206.83
2.	Dunlop	22.23	51.29	130	167.44
3.	Brook Bond	17.85	41.95	135	142.21
4.	Union Carbide	28.07	50.35	79	108.12
5.	Indian Explosives	9.87	62.94	537	101.17
6.	Indian Aluminium	29.41	101.01	243	90.12
7.	Ashoka Layland	18.52	21.30	15	89.62
8.	G.K.W.	33.72	45.02	33	81.64
9.	Bata	3.76	21.27	465	75.50
10.	Siemen	-	20.35	-	73.26
11.	Goodyear	10.48	24.99	138	65.50
12.	Philips	1.83	27.67	1412	60.31
13.	Metal Box	16.41	22.82	39	57.12
14.	MICO	11.26	33.27	195	51.82
15.	G.E.C.	14.36	14.04	- 3	50.25
16.	Alkali Chemicals	15.23	6.36	- 58	48.08
17.	Glaxo	12.66	17.20	35	42.85
18.	WIMCO	11.30	12.89	14	40.43
19.	India Oxygen	16.49	27.11	64	38.90
20.	Ciba-Geigy	--	21.16	-	34.64
21.	Pfizer	16.67	17.02	2	34.35
22.	Britannia	3.79	7.75	104	33.18
23.	Parry	7.44	11.77	58	32.18
24.	Chemicals & Fertilizers	8.73	17.76	103	29.78
25.	Chloride	3.79	8.11	113	28.45
26.	Bayers	7.41	16.54	123	25.69
27.	Sandoz	8.38	6.28	-26	23.64

Table IX contd..

1	2	3	4	5
28. Tube Investment	11.38	10.34	-10	21.35
29. Colgate Palmolive	2.88	9.95	245	19.96
30. Asbestos	5.93	10.32	74	17.02
31. Hindustan Milk	1.46	6.48	343	16.67
32. Cynamid	5.72	12.80	123	16.89
33. Associated Bearing	7.44	19.64	163	16.53
34. Lucas T.V.S.	4.74	14.74	210	15.14
35. Food Specialities	2.87	9.66	236	14.78
36. Sandvik	3.98	7.07	77	14.70
37. Goodlas Nerolac	2.63	7.25	176	13.64
38. Otis	3.91	11.29	188	12.41
39. India Tyre	1.11	2.80	152	12.38
40. Abbat Laboratories	0.60	4.89	715	12.19
41. Tribeni Tissues	4.28	8.62	101	11.39
42. Cadbury	3.02	6.63	119	12.40
43. Reckit Coleman	2.26	5.86	159	10.76
44. English Electric Company	5.10	5.42	6	12.97
45. Atlas Capco	2.39	6.30	163	10.68
46. Hindustan Ferodos	4.09	5.93	44	10.47
47. H.M.V. (Gramophone Company)	2.10	9.35	345	10.41
48. Mercksharp	2.98	2.79	- 7	9.90
49. Boots	1.74	5.73	229	9.73
50. Shalimar Paints	3.72	5.44	46	9.70
51. Roche	3.81	6.70	75	9.84
Total	452.90	953.64	111	2,154.99

14. The foregoing analysis was restricted to examination of trends in asset concentration during 1937-76. As has been brought out in Chapter IV, corporate assets are only 'book values' and do not indicate market value or replacement value of the assets. Book value of assets, therefore, is un-realistic. For a number of purposes, turnover data is more indicative of the power of a House in the market. We now proceed to examine trends in turnover concentration. For this, however, we confine ourselves to the period of 1964 and 1976.

15. We noted earlier that assets under control of 20 Big Houses (Table-VI) rose from Rs. 1,471.91 crores in 1964 to Rs. 4,732.04 crores in 1976 i.e. an increase by 221.49 per cent. But if one compares the rate of growth in assets of twenty Big Houses with that of growth rate in turnover, for 1964 to 1976, it is seen that the turnover rate was much higher. The gross turnover, under the 20 Big Houses rose from Rs. 1306.97 crores to Rs. 5,807.75 crores i.e. an increase by 344.36 per cent.

16. Over time, turnover to asset ratio has been rising for all Houses, in a substantial manner. In a way, this also implies an undervaluation of assets. For changes in Turnover to assets ratio see Table - X. It would emerge, from the trends in turnover changes, that the degree of turnover concentration under control of Houses is larger than reflected by asset concentration. The growing hold of the Big Houses, in general, and that of the few top Houses, in particular, is obvious.

17. We have presented changes during four periods: (i) 1937 to 1947, (ii) 1951 to 1958, (iii) 1964 to 1966, and (iv) 1969 to 1975. This became necessary to achieve the maximum possible comparability. By piecing together the changes observed in each one of the four periods one can draw some definite conclusions. We have attempted in a limited way to examine the overall trend in business consideration. From the foregoing presentation it is clear that the degree of concentration in the hands of Indian private Business Houses has increased in a market manner.

Table - X

Showing Changes in Turnover to Assets Ratio During (1964-and 1975)

(Rs. Crores)

S. No.	House	1964 (MIC)		1975 (MRTP)		Ratio	
		Turnover	Assets	Turnover	Assets	1964	1975
	1	2	3	4	5	6	7
1.	Tata	324.98	417.72	1060.04	909.68	0.78	1.16
2.	Birla	290.24	292.72	966.11	858.81	0.99	1.12
3.	Mafatlal	43.11	45.91	337.19	244.23	0.94	1.38
4.	J.K.	54.43	59.20	198.87	209.56	0.92	0.95
5.	Thapar	70.61	71.90	251.85	197.90	0.98	1.27
6.	I.C.I.	38.16	36.89	238.78	178.34	1.03	1.34
7.	Shri Ram	59.85	54.68	241.03	166.16	1.09	1.45
8.	A.C.C.	44.13	77.36	142.15	160.05	0.57	0.89
9.	Bangur	65.29	77.91	210.35	158.63	0.84	1.33
10.	Kirloskar	21.46	19.12	181.99	148.65	1.12	1.22
11.	Walchand	54.02	55.17	162.62	126.78	0.98	1.28
12.	Total	1066.28	1208.58	3990.98	3356.79	0.88	1.19

18. The above conclusion, however, is in complete contrast to a lobby paper which is under private circulation in political circles of New Delhi. The paper is an attempt to show that degree of concentration in the Indian Industrial sector declined during 1972-1976. The share of Large Houses in industrial assets, it is claimed, has dropped from 25.0 per cent to 22.7 percent. (19) The relative importance of the Houses would decline to 20.0 per cent by 1982, the paper predicts. No source of data has been indicated.

19. The second point emerging out sharply, from the above analysis is that Big Houses as a whole have grown, but all through the period, the lion's share has been claimed by the House of Birlas. Tata have been a close second.

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(19) A paper submitted to a Committee of the Janata Party "Large Houses and Concentration of Economic Power" (Mimeographed). Authors name not mentioned.

CHAPTER - VI

GROWTH OF THE TOP TWO HOUSES
(BIRLAS and TATAS)

1. In the previous chapter we examined trends in business concentration, during the period 1937-76. For the period 1937-47 paid-up-capital (PUC) was taken as the basis; for 1951-58, net capital stock; and for the remaining period assets were examined to observe the trends concentration. Table-I shows, in one place, the trends for the four periods. Each period, taken independently, experienced furtherance in business concentration; therefore, a general conclusion that Indian economy has witnessed furtherance of concentration in private hands.

2. The relative share of the top two Houses in the expansion of the corporate private sector has always been the largest. Table - II shows the share of the two Houses, the Tatas and Birlas, in the total increases during the four periods. It would be seen that in three, out of the four periods, growth rate of Birla House was higher. During 1951-58, the Tata House expanded from Rs. 64.95 crores to Rs. 220.47 crores. This period was the one

Table - I

Showing Changes in Concentration Within the Indian Private Corporate Sector

S. No.	Year	Coverage	Indicator	Sectoral Total (Rs.Cr.)	House Assets (Rs. Cr.)	House Percentage to Sector	Data Source
1		2	3	4	5	6	7
1.(A)	1936-37	Indian MAHs	PUC	383.8	15.69	4.08	Ray, Rajat K *
2.	1946-47	Indian MAHs	PUC	639.2	64.66	10.12	Ray, Rajat K
3.(B)	1951	20 Houses	Net Capital Stock	976.0	258.06	26.44	Hazari £
4.	1958	"	"	1,956.0	636.80	32.56	Hazari
5.(C)	1963-64	75 Houses	Assets	6,487.08	2,605	40.17	MIC @
6.	1966 (end)	"	Assets	6,990.70	3,442.1	49.25	ILPIC @@
7.(D)	1969	Top 20 GICU	Assets	9,670.23	2,430.61	25.1	Sachar Committee **
8.	1975	"	Assets	12,834.90	4,465.17	34.7	Sachar Committee

Sources: * Ray, Rajat K. Industrialization in India, pp. 46 and pp. 260-261.
£ Hazari, R.K. The Structure of the Corporate Private Sector, p. 15 and p. 35.
@ INDIA Monopolies Inquiry Commission: Report, pp. 119-121.
@@ INDIA Industrial Licensing Policy Inquiry Committee: Report, Appendices II, pp. 3-92.
** INDIA High Powered Expert Committee on Companies and MRTP Acts, p. 251.

Table - II

Showing Relative Importance of Top Two Houses Amongst Top Houses (1937-76)

S. No.	Year	Coverage	Indicator	Group Total	Birlas Shares (Rs.Cr.)	Tatas Shares (Rs.Cr.)	Birlas % Share	Tatas % Share	Data Source
	1	2	3	4	5	6	7	8	9
1.(A)	1936-37	Indian M.Hs	PUC	15.69	1.79	10.46	11.41	66.67	*
2.	1946-47	"	"	64.66	21.85	23.75	33.79	37.73	*
3.(B)	1951	Twenty Groups (Inner)	Net Capital Stock	258.06	49.34	64.95	19.12	25.17	£
4.	1958	"	"	636.80	107.41	220.47	16.87	34.62	£
5.(C)	1963-64	Twenty Big Houses	Assets	1,471.91	292.72	417.72	19.89	28.38	@
6.(D)	1976 (end)	Top Twenty GICU Houses	Assets	4,732.04	974.63	980.77	20.60	20.73	CLD
7.(E)	1976	Top 20 B g Houses	Turnover	5,807.75	1,122.04	1,138.28	19.32	19.60	CLD

Sources: */£/@: See footnotes to Table-I.
CLD : Company Law Department

when Industrial Policy Resolution of 1948 was replaced by 1956 Resolution. Iron & Steel and power sector units in the private sector (mainly under Tatas) were supposed to be taken over by 1958. But a more socialistic (?) Industrial Policy Resolution of 1956, did not mention of takeovers (as stated in the Industrial Policy Resolution of 1948). TISCO and Tata Hydro were no more under the threat of nationalization. On the other hand, TISCO was established and TISCO and power units of the Tatas were helped to grow with direct government participation. This approach of the Government was considered, by some industrialists, as a special concession to the Tatas. The Birlas too had to be obliged, appeared to have been a decision. Hence, the allocation of a number of projects to Birlas, particularly in areas which were supposed to be earmarked for the public sector as per Schedules A & B to the Industrial Policy Resolution of 1956.

3. . . .. The trends observed, in growing business concentration, over the periods and size of the reported assets of the Houses for 1976, are substantial underestimates. The reasons for this are the following.

Firstly, the number of Companies, covered under the GICU (1976) concept, is much smaller than that of the ILPIC and the MIC. A number of companies, which indeed are a part of the Houses, have got excluded due to technical reasons (See Tables III, IV and V in Chapter III). Secondly, value of the House assets taken as data base, is neither the market value nor the replacement value of the assets; there is a built-in-system for understatement of value of the corporate assets (See: Chapter IV, paras 6 to 10). Thirdly, assets of the Houses do not include the assets (even book-value) of partnership and proprietory concerns, private and public trusts, and joint enterprises i.e. joint sector projects undertaken in partnership with the Central or State Governments. (1) Fourthly, the assets of individual Houses do not include assets of companies, in which though a House holds minority equity but has influence and power to achieve co-ordination in business operations. Top business

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(1) For example; Southern India Petrochemical Company (SPIC) is a joint sector project of TI-Murugappa Chettiar House and Tamil Nadu Government. Under the MRTP Act it is registered as a large independent undertaking (LIU) and not a part of the House.

Table - III

Showing Changes in Assets of Companies of Birla House which are now Excluded from GICU (MRTP Act)

Illustrative List Only

(Rs crores)

S. No.	Company Name	Assets in 1966	Assets in 1976-77	Chairman
1.	Indian Rayon Corporation	7.26	24.37	A.V. Birla
2.	Century Enka	--	19.12	B.K. Birla
3.	Oudh Sugar Mills	5.06	16.70	K.K. Birla
4.	Electric Construction Equipment	6.29	15.71	A.V. Birla
5.	Sirpur Paper	7.23	15.60	P.K.Doraiswamy
6.	Zenith Steel	3.49	14.78	B.M. Dalal
7.	Upper Ganga Sugar	3.95	12.25	K.K. Birla
8.	Universal Cables	3.58	11.86	M.P. Birla
9.	Pilani Investment	6.48	11.65	R.M. Dalal
10.	Birla Cotton	5.51	10.34	K.K. Birla
11.	Indian Tool Manufacture	3.37	10.00	R.M. Dalal
12.	Central India Match	9.70	9.30	D.P. Mandelia
13.	Shree Digvijey Woolen	2.58	8.21	A.N. Lalbhai
14.	Gobind Sugar	1.44	7.82	K.K. Birla
15.	Sirsilk	8.27	7.89	P.K.Doraiswamy
16.	Tungbhadra Industries	1.73	6.66	A.V. Birla
17.	Kusam Products	1.98	6.03	A.N. Birla
18.	Universal Electrics	1.04	5.07	S.K. Birla
19.	Hindustan Gas	2.41	4.31	A.V. Birla
20.	New Swadeshi Sugar	2.30	4.96	K.K. Birla
21.	New India Sugar	1.80	2.25	K.K. Birla
22.	Universal Tyres	0.03	2.19	S.M.R. Rao
23.	Bharat Sugar	1.32	1.58	K.K. Birla
24.	Total	49.96	228.65	

Table - IV

Showing Changes in Assets of Tata House Companies which are Now Excluded from GICU (MRTP Act)

Illustrative List Only

(Rs crores)

S. No.	Company Name	Assets 1966	Assets 1976-77
	1	2	3
1.	Gokak Mills	4.06	13.39
2.	Goodlass Nerolac	2.63	7.09
3.	Indian Standard Metal	1.61	3.04
4.	Indian Cement Company	0.04	0.30
5.	Investment Corporation of India	5.93	6.74
6.	Tata-Merlin & Gerin	1.00	6.48
7.	Tata Mills	8.27	13.54
8.	Ceat Tyres	8.38	32.51
10.	Total	27.86	83.09

Table - V

Showing Estimated Assets of Birlas and Tatas for 1975-76 (ILPIC Concept)

(Rs. crores)

S.No.	Companies	No Coys (Birla)	Birlas Assets	No. Coys (Tata)	Tatas Assets
	1	2	3	4	5
1.	Under GICU	70	974.63	32	980.77
2.	Excluded for which Additional Data now Available	23	228.65	8	83.09
3.		18		8	
4.	Missing from GICU with 1964 Assets.	97	95.94	28	16.76
5.	Total	208	1,299.22	76	1,080.62

Foot Note: For line four we have only repeated the assets data of 1966.

Houses are known to have satellite companies and other smaller Houses, which flourish only under patronage of the Big Houses.[2] Within this category one may also include agencies, firms and companies, spread all over the country, which are sole selling agencies or are primarily handling products of a House, e.g. sales and service agencies of passenger cars and commercial vehicles. Fifthly, overall size of assets, under control of Houses as shown by Company Law Department, does not include enterprises which have been established by a House outside India as joint ventures. And lastly, the degree of change, as reflected in asset enlargement, during 1964 and 1976, is an under-estimate because for the base year (i.e. 1963-64) the coverage of companies is larger than for 1975. Larger the base lesser would be the degree of change.

Birla House Assets: Rs. 1500 crores in 1969

4. We have attempted to find out the degree of under-estimation in assets of the top two Houses, for the year 1976. Primarily, the adjustment is made for GICU

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(2) Houses like, Kothari (G.D.), Daga, Maheshwari, Kanoria, Mandelia, and Goenka are known to be close business associates of the Birlas; and Khatau, Rallies, M. Magor to the Tatas. Hazari described these as Outer Circle Companies and the ILPIC treated them as Second Tier companies.

limitations. Table III & IV bring out the companywise impact of the GICU's exclusions (vis-a-vis, the ILPIC) for the House of Birlas and the Tatas, respectively. Table V gives an estimate of the assets for the Birlas and Tatas for the year 1975-76. In view of our inability to obtain Balance Sheets for all the companies of the two Houses we have not been able to find out the assets under a number of companies. For these companies, as a precaution we have repeated the assets of 1964 to find out a minimum estimate of the House assets for 1976. Therefore, one can say that the assets of the Birla House, on the ILPIC basis, were more than Rs. 1,300 crores for the year 1976 (compare with the Company Law Department figure of Rs. 974.63 crores). Given the growth rate of the House, as in the last few years and the new companies acquired by the House, the assets of the Birlas can be placed around Rs. 1,500 crores for 1979. The size of Birla House may indeed be larger if one takes note of other limitations pointed out in para three above.

5. In the case of Tatas, the available accounts give us a basis to place the assets at nearly Rs. 1,100 crores in 1975-76. Necessary additions to the House assets for meeting some of the limitations, pointed out earlier, would certainly

show the Tatas to control a much larger level of assets during 1979 (See Table-V, Col. 5).

6. A general impression about Big Houses is that most of their companies are large. A close scrutiny of the companies under the two Houses, however, reveals that nearly nine-tenths of the House assets, are accounted for by a handful of large companies, each having assets of Rs.10 crores and more. (The analysis is based on available Balance Sheets). In fact, a good number of companies of the two Houses may qualify for being awarded concessions under small and medium industries! Table VI presents the size-wise distribution of the Birla and Tata companies, for the year 1975 (GILU Companies).

7. Table VII and VIII give names and asset changes during 1966-75 for the large companies (each with assets of Rs. 10 crores or more) for the House of Birlas and the House of Tatas, respectively. From these Tables, it is obvious that the Birlas and Tatas have a large many companies with very small assets; and secondly, the main reason for high rates of asset increases of the two Houses is in a few House companies only. The companies making significant

Table - VI

Showing Size-wise Distribution of GICU Companies under Birla and Tata GICU (1975)

(Rs. crores)

S. No.	Range	Birla		Tata		Assets	
		No. of Coys	Assets (Rs. Cr.)	No. of Cos.	Assets	Birla %	Tata %
	1	2	3	4	5	6	7
1.	Less than 1 cr.	21	5.74	4	0.45	0.70	0.06
2.	1 - 5 crores	12	27.56	7	18.01	3.44	2.71
3.	5-10 crores	7	52.23	3	23.93	6.51	3.60
4.	10 crores - above	14	716.17	13	621.31	89.33	93.60
5.	Total	54	801.70	27	663.7	100.0	100.0

Table - VII

Showing Top Companies of Birla Each with Assets of more than Ten Crores of Rupees

(Rs. crores)

S. No.	Company Name	Assets 1964	Assets 1975	Asset Increase	% Share in Total Expansion
	1	2	3	4 = (3-2)	5
1.	Gwalior Rayon	18.96	113.47	94.51	16.8
2.	Zuari Agrochem	0.01	72.75	72.69	13.0
3.	Hind Motors	20.81	89.54	68.73	12.2
4.	Century Spinning	17.22	73.38	56.16	10.0
5.	India Steamship	15.34	64.52	49.19	8.7
6.	Hindalco	16.44	62.34	45.9	8.1
7.	Bihar Alloy Steel	-	38.27	38.27	6.8
8.	Birla Jute	12.50	46.02	33.52	5.9
9.	Texmaco	13.07	38.19	25.12	4.5
10.	Renusagar	3.68	23.66	19.98	3.6
11.	Ratnakar Shipping	3.15	22.13	18.98	3.4
12.	Orient Paper	22.45	40.21	17.76	3.2
13.	Hyderabad Asbestos Cement	1.53	15.98	14.45	2.7
14.	Mysore Cement	4.41	10.71	6.3	1.1
15.	Total	149.57	711.7	561.56	100.0

Table - VIII

Showing Top Companies of Tata Each with Assets of more than Ten Crores of Rupees

(Rs. crores)

S. No.	Company Name	Assets 1964	Assets 1975	Asset Increase	% Share in Total Expansion
	1	2	3	4 = (3 - 2)	5
1.	TELCO	58.49	139.72	81.23	28.3
2.	Tata Chemicals	11.92	53.64	41.72	14.5
3.	TISCO	159.24	188.99	29.75	10.3
4.	Indian Tube Company	21.67	50.06	28.39	9.9
5.	Associated Bearing	0.49	20.27	19.78	6.9
6.	Tata Oil Mills	9.39	28.54	19.15	6.7
7.	Tata Hydroelectric	0.83	16.2	15.38	5.3
8.	Voltas Ltd.	21.69	36.56	14.87	5.2
9.	Ahmedabad Advance Mills Ltd.	3.47	13.12	9.65	3.4
10.	Tata Power	26.30	35.72	9.42	3.3
11.	Indian Hotels Co.	1.11	10.07	8.96	3.1
12.	Andhra Valley Power Supply Co. Ltd.	13.36	18.05	4.69	1.6
13.	Belpahar Refactions Ltd.	5.82	10.35	4.53	1.6
14.	Total	333.78	621.3	287.52	100.0

contribution to Birla House expansion are: Gwaliar Rayon, Zuari Agro, Hind Motors, Century Spinning, India Steamship, Hindustan Aluminium, Bihar Alloy, Birla Jute and Taxmaco. In the case of the Tatas, most of their growth can be explained in terms of Telco, Tata Chemicals, TISCO, and Indian Tube Company.

8. At this stage, it becomes necessary to have information on the large sized companies of the top two Houses. In the following paras we make an attempt to highlight some basic facts about the important companies of the two Houses. The accounts are based on Balance Sheet data and information available in published records.

<u>A. Gwalior Rayon & Silk Manufacturing Company</u> (Gwalior Rayon)

The Company was registered on August 25, 1947. The Board of Directors consists of, among others, G.D. Birla, A.V. Birla and S.P. Jain; D.P. Mandelia is the Advisor. The Company has the largest assets amongst companies of the Birla House. The assets for 1975 were placed at Rs. 113.46 crores; these have, however, increased to Rs.151.25 crores by March, 1978. The turnover for 1978 was placed at Rs.181.24 crores.

(i) The main activities of the Company are in the area of man-made fibre. It has, staple fibre and Engineering Units at Birlagram (..P.), Pulp Division and Polynosic Fibre Units at Harihar (Karnatka), Pulp and Paper Plants at Mavoor (Kerala), and Cotton Textile Mill at Bhivani (Haryana). The Birla House Companies have a dominant position in the broad area of man-made fibres. The company was the first to enter the industry and obtained a licence for 36,000 tons capacity in March 1958 and a substantial expansion licence for 18000 tons in January, 1960. Manjushree Industries, another Birla House concern in man-made fibres was granted a licence for Rayon Grade Pulp for a capacity of 54,000 tons in February 1961. According to the Dutt Committee, the Birla House Companies had nearly 86 per cent of the licenced capacity in Viscose Staple Fibre; 37 per cent in Viscose Filament Yarn; and 100 per cent of the installed capacity in Acetate Rayon Yarn.

(ii) Some interesting features of the Gwalior Rayon licenses are:

(a) A licence to the company was granted for manufacture of Rayon Grade Pulp -- an industry which was included in Schedule B of the Industrial

Policy Resolution 1956. The Company established a unit in Kerala (thanks to the then Kerala Government) and the necessary foreign exchange was sanctioned by the Government before the industry was brought under the IDRA. The deviation from the declared policy was, obviously, made at high levels.

(b) Gualior Rayon were granted another licence to expand its capacities even prior to the company having implemented the first industrial licence.

and (c) While there were complaints to the Government (and these were also voiced in Parliament), pointing out violations of the Industrial Development Regulation Act by the company, no punitive action was taken against the company.

(iii) Even today, the company has substantial unlicensed capacities. See: Table IX.

(iv) In the field of man-made fibres the company particularly in combination with other Birla

Table - IX

Showing Licenced and Established Industrial Capacities by Gwalior Rayon

(Year ended 31.4.1978)

(in M. tonnes)

S. No.	Products	Licensed	Installed	Degree of Unlicensed Capacity (%)
	1	2	3	4
1.	(a) Viscose Staple Fibre	22,000	78,000	254
	(b) Sulphuric Acid (Captive Product)	37,800	74,000	95
	(c) Carbon-di-Sulphide	5,657	15,000	62
2.	(a) Rayon Grade Pulp at Mavoor	60,000	72,000	20
	(b) Rayon Grade Pulp at Harihar	48,000	58,000	20.8
3.	Rayon Grade Caustic Soda	33,000	41,250	25

House Companies has near monopoly position in the Indian market. The company made rapid and high profits and expanded its assets rapidly in a phenomenal manner. The level of profitability under monopoly position is evident from the fact that out of the Rs. 1.58 Crores value of equity shares of the Company, the shares worth Rs. 1.33 crores were issued as Bonus shares during the last twelve years. Secondly, the Company revalued its machinery and equipment (thanks to high depreciation allowances) in the staple fibre units in 1974-75. The net surplus of Rs. 44.71 crores, arising out of this re-valuation, was transferred to capital reserves.

(v) The preference equity to the extent of 69 per cent and equity to the extent of 21 per cent is held by public sector financial institutions and the nationalized banks. The unpaid term loan from ICICI was Rs. 47.75 lakhs (1978).

(vi) The relevant extracts from the Dutt Committee are given in Appendix - A.

B. <u>The Century Spinning and Manufacturing Co. Ltd</u>.

(i) The company was registered in 1897 but came under control of the Birlas during the 'Forties. B.K. Birla, S. K. Birla, Ramnath Podar, Madanmohan Ruia, P.K. Daga are prominent members of the Board of Directors.

(ii) Very similar to the position of Gwalior Rayon, the company has an important place in the man-made fibre industry. The company obtained a number of licences in the area and one of the licence was transferred to <u>Century Enka Ltd</u>. for implementation. The company, due to its being in a commanding position in the man-made fibre industry, earned very quick and large profits. This enabled the company to issue bonus shares in: 1961, 1964, 1967, 1972 and 1977. Out of the total equity capital of Rs. 10.64 crores, the bonus shares are worth Rs. 8.61 crores <u>i.e.</u> more than 80 per cent.

(iii) Century Enka which was promoted to implement the licence earlier issued to Century Spinning entered into a collaboration agreement with the AKU and

Glanzstoff (a Dutch MNC) for technical knowhow. The Century Enka issued nearly 19 per cent of the equity shares to the foreign collaborators. As a result of the collaboration with the Dutch firm, Algemene Bank, Netherlands, gave a foreign exchange loan of Rs.1.65 crores and because of another collaboration with a West German company, a loan of Rs.47.68 was obtained from Glanzstoff A.G. West Germany.

C. <u>Zuari Agrochemicals</u> (Zuari)

(i) The company was registered in 1967 and K.K.Birla is the Chairman. The company is expected to produce chemical fertilizers -- an industry which was listed under Schedule B of the Industrial Policy Resolution of 1956. The industry, however, was thrown open to private sector, sometime in early 'sixties. The company is only one of the beneficiaries; others being: The Shri Ram, Parry and other Houses.

(ii) Zuari was promoted by Birlas in collaboration with United States Steel Corporation and the World Bank. The share structure of the company is given in Table - X.

(iii) In addition to equity capital of Rs.12.42 crores, preference shares worth Rs.4.12 crores were raised from the Indian financial institutions and the public. Company has declared no dividents; the divident on Preference shares, amounting to Rs. 2.72 crores, was in arrears as on June 30, 1977.

(iv) The total cost of the Zuari Agro Project was estimated at Rs. 56.55 crores. The scheme of finance is shown in Table - XI.

(v) The World Bank, through the Industrial Development Bank of India (a public sector institution), offered a loan of $ 4 million. This was to meet the foreign exchange expenses connected with the pollution control measures as also for meeting expenses connected with the de-bottlenecking of the plant to achieve a 10 per cent increase in the capacity.

Table - X

Showing Share Structure of Zuari Agro Chemicals

(Rs. ~~lakhs~~ millions)

S. No.	Shareholders	Share Capital	% of Total
	1	2	3
1.	US Steel Corporation	45.00	36.23
2.	Armour & Co. (USA)	2.25	1.81
3.	International Financial Corporation (Washington)	23.92	19.26
4.	Bank of America (USA)	7.50	6.0
5.	First Chicago Finance Corporation (USA)	1.87	1.5
6.	Sub-Total (of USA Shares)	80.55	64.86
7.	Sutlej Cotton (Birlas)	10.00	8.1
8.	Pilani Investment (Birlas)	2.00	1.6
9.	Birla Education Trust	1.80	1.45
10.	Century Spg. (Birla)	1.50	1.21
11.	Gwalior Rayon (Birla)	1.10	.88
12.	Birla Bombay	.70	.56
13.	Jiyaji Rao Cotton (Birla)	.40	.32
14.	Sub-Total (Birlas	17.50	14.09
15.	Others	26.15	21.05
16.	Grand Total	1,24.20	100.0

Table - XI

Showing Scheme of Finance for the Zuari Agro

S. No.	Source	Amount Rs. Crores	% Share
	1	2	3
1.	Share Capital	16.55	29.26
2.	Loan from International financial Institutions	30.02	53.08
3.	Birlas and their collaborators; and	0.97	1.72
4.	Others	9.01	15.94
5.	Total	56.55	100.00

(vi) Toyo Engineering Corporation and Toyo Engineering Corporation (India) have been assigned the complete responsibility for the design, engineering and construction of the plant and its auxiliaries and ancilliaries on a turn-key basis for a firm price of $ 26.6 crores and Rs.17.38 crores.

D. Hindustan Motors (HM)

(i) The company was registered in February 1942 and B.M. Birla, and G.P. Birla are on the Board of Directors. The assets in 1964 were placed at Rs. 20.81 crores only whereas in 1975, the Balance Sheet of the company places the assets at Rs. 89.54 crores.

(ii) The Hindustan Motors is engaged in manufacture of Hindustan Ambassador Cars, Bedford Trucks, Lion diesel engines, Marion showels, scrappers and bulldozers, MAN cranes and steel fabrication work (all with foreign collaborations for know-how and for use of trade names).

(iii) The domination of BHM in supplies of passenger cars is well known; as also the fact that the car design was obtained by the HM from one of the multinational corporations. The HM also manufactures Hindustan Trecker with diesel engine. For the production and sale of earth-moving equipment, the HM entered into collaboration with the General Motor Corporation (USA); for heavy engineering with Universal Marion (Switzerland), M.A. Nueremberg (FRG), and Athey Products Corporation Chicago (USA); and for presses, with U.S. Industries Inc. (U.S.A.).

(iv) The company has been fortunate in getting a number of loans from the U.S. Agency for International Development; as on March 1976, the AID outstanding loan was Rs. 15.63 crores. The U.S. AID loans were advanced for establishing heavy engineering plants, steel foundry engineering plants, steel foundry and plants for manufacture of earth moving equipment.

5. Out of the total equity capital of Rs.13.16 crores (1975) nearly 35 per cent is held by public sector financial institutions; and the extent of preference share held is 92 per cent.

6. For a number of years the company could not declare dividends.

E. India Steamship Company and Ratnakar Shipping

(i) The Indian Steamship was registered in 1928 and the present Chairman of the Board of Directors is K.K. Birla. The Ratnakar Shipping was registered in 1960 and its Board of Directors includes K.K. Birla, D.P. Goenka, M.A. Chidambaram and others.

(ii) India Steamship had assets of Rs. 64.52 crores in 1975 and Rs.97.59 crores in 1977. The Shipping Development Fund Committee (Government of India) has extended large loans to the company. On March 31, 1977, a sum of Rs.22.77 crores was due to the Shipping Development Fund Committee. The

company also owed Rs.39.00 crores to foreign banks apart from an outstanding amount of Rs.1.03 crores to the Industrial Credit and Investment Corporation of India.

(iii) Ratnakar Shipping which had assets of Rs.22.12 crores in 1975 had acquired assets worth Rs.40.19 crores in 1977. On 31st of March 1977, the company owed Rs.7.32 crores to Shipping Development Fund Committee and another Rs.14.44 crores to the Grindlays Bank (London).

F. Hindustan Aluminium (Huidalco)

(i) The Hindustan Aluminium Company was registered in 1958 and the Board of Directors included G.D. Birla, E.F. Kaiser, A.V. Birla, B.D. Goenka, B.P. Khaitan and E.A. Holbrook. Aluminium Industry was, according to the Industrial Policy Resolution, 1956, to be developed in the public sector. As per the Second Five Year Plan, the NIDC had been assigned the responsibility to establish aluminium plant in the

public sector. However, in 1958, at 'high levels' a decision was taken to request the Birlas to undertake aluminium industry in the private sector.

(ii) Birlas, on their part, joined with Kaiser Aluminium and Chemical Corporation (USA) to implement the licence. By accepting to collaborate with Kaisers (MNC) the company obtained access to funds from the USAID and other international finance institutions. The UP Government agreed to supply power to the Hindustan Aluminium Corporation at a subsidized rate. By this decision, thousands of small farmers who were to get electricity for energizing of the tube-wells in the Eastern U.P., were deprived of electricity; apart from the implied losses for the UP Electricity Department.

(iii) The Hindustan Aluminium Corporation has two subsidiaries namely, Minerals and Minerals Limited, and Renu Sagar Power Company Ltd. Renu Sagar Power Company, it may be mentioned, was allowed to be established in the private sector as a special case since, under the Industrial Policy Resolution, power was to be exclusively developed in the

public sector. The company owes lot of funds to the financial institutions inside and outside the country. A broad picture of the share holding structure is as follows:

(iv) Extracts from the Dutt Committee on the Hindalco case are given in Appendix - B.

G. TELCO

(i) Table VIII had brought out that more than a quarter of the increase in the Tata assets is accounted for by only one company, namely, the Tata Engineering and Electric Locomotive Company. The company was registered in 1945 and the Board of Directors include J.R.D. Tata, N.H.Tata, N.A.Palkhiwala, S. Moolgaokar, A.N. Mafatlal and James S. Raj.

(ii) The company had originally taken up manufacture of locomotives for the railways. However, it shifted to production of commercial vehicles and trucks after entering into a collaboration agreement with the Daimler-Benz A.G.West Germany (a world giant). The company has a monopoly position in the area of commercial vehicles.

(iii) The Central Bank of India has been amalgamated with the company as also another company of the Tata House, namely, the Investa Machine Tools and Engineering Company Ltd. The company has established the Tata Precision Industry (Private) Ltd. in Singapore and also proposes to establish a joint venture in Malaysia for assembly of Tata vehicles.

(iv) The company was not only having technical collaboration with Dailmer-Benz but also entered into collaboration with Rheinstahl of West Germany for industrial tractors, forklift trucks and front-end loaders.

(v) The assets of the company were estimated at Rs. 201.33 crores in 1976. The Government of India is an important shareholder in the company right from 1950 when it invested nearly Rs.3 crores in the preference and other shares of the company. The financial institutions have been extending loans from time to time in a liberal manner. During 1975-76, the Life Insurance Corporation of India agreed to give a loan of Rs. 5.50 crores;

the

the Industrial Development Bank of India, Rs. 3.0 crores; Unit Trust of India, Rs. 1.50 crores; IFCI, Rs. 1 crore; ICICI, Rs. 1 crore; and other banks Rs. 2.25 crores. The company has been having other collaborations too but the main reason for its expansion has been the Government of India's approval to allow it to expand its capacity for production of commercial vehicles.

H. Tata Oil Mills

(i) The Tata Oil Mills is an old company established in 1917. J.R.D. Tata is its Chairman. Apart from its own operations it has Lakme Ltd. and International Fisheries Ltd. as its subsidiaries. The company also has invested substantially in the Industrial Perfumes Ltd., Tata Finlays Ltd., and Uni Tata Sdn Bhd Malaysia. The Tata Oil Mills also has arrangements for manufacture of toilet soaps in Tanzania, Singapore and Ethiopia. The joint venture in Malaysia was formed in Kaula Lumpur under the style of United Plantations Berhad. In Malaysia, the Unitata is in collaboration with Tata London.

(ii) Tata Oil Mills also acts as sole selling agents for Tata Chemicals, Tata Finlay, and Industrial Perfumes. The company is one of the important producers of soaps and toiletories, synthetic detergents, vanaspati, refined oil and mass consumption products. While granting licences for detergents in India the Tata Oil Mills was able to get an important place in the industry.

J. TISCO

There is hardly any need to emphasize that Tata Iron and Steel Company, which is the largest company of the House, has been able to continue its operations because of the government decision not to nationalize this industry, as contemplated in the Industrial Policy Resolution of 1948. The financial assistance granted by the government, loans from the World Bank, and special privileges enjoyed in matter of mines etc., by the company are well known. The government financial institutions and nationalized banks control 44 per cent of the equity shares in the TISCO as also nearly one-third of the preference shares are held by the public sector.

K. The Indian Tube Company

(i) The Indian Tube Company was registered in 1953. Air Chief Marshall P.C. Lal is the Chairman and Managing Director of the company. It is engaged in production of a variety of tubes. The company is also a sales agent for the British Steel Corporation for sale of their products in India.

(ii) For all its expansions and new projects, public sector financial institutions collectively made the necessary funds available. For instance, in 1975, the company undertook a project for increasing its installed capacity which involved an outlay of Rs. 12.44 crores. The Life Insurance Corporation, the IDBI, IFCS and UTI sanctioned rupee loans for 4.67 crores and ICICI a foreign exchange loan of Rs. 3.33 crores. The company has technical collaboration with American Petroleum Institute for using the monogram on line pipes.

L. Associated Bearing Company Ltd.

The company was established in April 1961 and A. Hydari, N.A. Palkhiwala, N.M. Wagle are amongst

the members of the Board of Directors. The establishment of the company was the result of the collaboration between Aktiebolaget Svenska Kullagerfabriken of Sweden and Skefko Ball Bearing Company Ltd. of England on the one hand and the Investment Corporation of India (a Tata investment company), on the other. The holding company is the Swedish one. The Investment Corporation of India Limited holds 76,000 shares, out of the total of four lakhs shares (each valuing Rs. 100).

M. <u>The Indian Hotels</u>

(i) The Indian Hotels was incorporated in 1902 and initially used to manage two hotels in Bombay, namely, the Taj Mahal Hotel and the Greens Hotel. However, at present, the India Hotel Co. Ltd. has a number of luxury hotels under its control; Taj Coromandel Hotel (Madras), Udaipur and Jaipur Hotels, Fort Agnda Beach Resort Hotel (Goa) and a hotel in Delhi.

(ii) J.R.D. Tata, Naval Tata and R.N. Mafatlal, Keshub Mahindra are amongst the members of the Board of

Directors. Starting with 1973 its assets have increased from Rs. 9.78 crores in 1973 to Rs.16.27 crores in 1978. The main reason for the growth of the company has been a link-up between the Taj and the Intercontinental Hotels of the American Express and easy and cheap finance from national and international agencies. The Hotel Development Loans Board is an important source of finance.

(iii) The government patronage to the Indian Hotel Company would be evident from a brief account of the Delhi project of the company. In 1975-76, the company undertook to set-up a luxury hotel in Delhi as a joint venture with the New Delhi Municipal Committee (NDMC). The building itself and all its fixed equipments are constructed and owned by the NDMC and the same is leased out to the company on a long term lease for running a five-star hotel (a priority expenditure!) The 350 room hotel, was estimated to cost Rs. 11 crores, of which nearly half is the cost of construction of building which would be met by the NDMC. Similarly, some of the palaces owned by former princes at Udaipur and Jaipur have been taken over by the company, for running of luxury hotels. The company

has constructed a flight kitchen after entering into agreements with some of the international airlines, to supply food requirements for the air passengers.

N. <u>Andhra Valley Power Supply and Tata Power</u>

These are mainly power companies, an area in which public sector alone was supposed to be operating. Substantial loans and other assistance has been provided by the government for these undertakings.

O. <u>Voltas</u>

(i) Voltas Ltd. was incorporated in 1954 and N.A. Palkhiwala was its Chairman during 1976. The company was promoted by M/s Volhart Brothers and Tata Sons Pvt. Ltd. to take over the Engineering and Import Division of the Volkart Brothers in India. It has become one of the important trading company of the Tata House. The company has been trying to coordinate distribution of many a large company in the country. These include: Marck Sharp and Dohme of India Ltd., Roche Products Ltd., Kirloskar Pneumatic Co. Ltd., and Tata Engineering and Locomotive Company.

(ii) The company was promotor of: Laxmi Machine Works Ltd., International Tractor Company of India Ltd., National Electric Industries Ltd., Crescent Iron and Steel Corporation, and Wandleside National Conductors Ltd. In 1963-64, the company promoted Scotish India Machine Tools Ltd. in collaboration with Scotish Machine Tools Corporation of Glasgow for manufacture of machine tools, and Tata-Merlin and Gerin Ltd. in collaboration with Tata Private Ltd. In 1964-65, the company joined Mines Safety Appliances Co. U.S.A. and Associated Battery Makers (Eastern) Ltd., Calcutta, and promoted Mines Safety Appliances Ltd., Calcutta, as a joint venture. The Life Insurance Corporation has substantial equity participation in the company.

9. It will be interesting to present here, in brief, the performance of the two top Houses in respect of their contribution to earning foreign exchange for the economy. Table XII presents the companywise details of the foreign currency utilization for the top 12 companies of the Birla House for the year 1975. The companies earned foreign currency, through exports, to the extent of Rs. 21 crores, the foreign exchange utilized stood at Rs.33.06 crores.

Table - XII

Showing Performance of Top Birla House Companies in Terms of Foreign Exchange Earnings and Expenditure (1975)

Rs. '000

S. No.	Name	Capital Goods	Raw Materials	Spares	Interest	Dividends	Knowhow	Others	Total	Exports	Net Earnings
	1	2	3	4	5	6	7	8	9	10	11
1.	GRASIM	1,101	41,313	1,193	1,300	..22	..	336	45,765	20,674	-25,091
2.	Zuari	-	-	-	15,510	8,005	2,178	326	26,019	143	-25,876
3.	Hindustan Motors	-	54,313	3,541	800	--	1	4,355	62,910	6,485	-56,425
4.	Century	-	99,615	4,417	982	..	..	197	105,211	33,907	-71,304
5.	Hindalco	-	2,281	2,136	2,148	..	..	88	6,653	199	- 6,454
6.	Bihar Alloy	332	..	176	636	..	999	1,361	4,004	..	- 4,004
7.	Birla Jute	20	819	1,360	91	..	...	86	2,376	53,154	+50,778
8.	Taxmaco	157	9,440	..	..	..	..	682	10,279	38,214	+27,935
9.	Renu Sagar	..	..	..	557	..	..	4	561	..	- 561
10.	Orient Paper	448	...	6,127	841	13	..	42	7,471	1,643	- 5,828
11.	Hyderabad Asbestos	363	55,528	2,632	..	..	..	184	58,707	55,625	- 3,082
12.	Mysore Cement	..	..	678	..	..	..	45	723	--	- 723
		2921	263309	22260	22865	8040	3178	8106	330679	210044	-120635

(Source: Company Balance Sheets)

Out of the total foreign currency utilized by the top Birla House companies, nearly 80 per cent of it was accounted for by import of raw materials. The interest payment on foreign loans was the next important expenditure head. Strangely enough, the import of capital machinery was rather unimportant.

10. Table - XIII shows company-wise performance of 9 Tata companies with regard to their utilization of foreign currency and exports. The total exports of the 9 companies, during 1975, were of the order of Rs.20.74 crores. Against this, the expenditure in foreign currency, by the Tata companies, was nearly Rs. 45 crores. The pattern of foreign exchange utilization for the Tatas is different from that of the Birlas. The payments on dividend and capital goods account are more significant than what was true of the top Birla companies.

Table - XIII

Showing Performance of Top Tata House Companies in Terms of Foreign Exchange Earnings and Expenditure (1975)

Rs. '000

S. No.	Name	Capital Goods	Raw Materials	Spares	Interest	Divi-dends	Knowhow	Others	Total	Exports	Net Earnings
	1	2	3	4	5	6	7	8	9	10	11
1.	Ahd. Adv. Mills	2,762	18,502	--	903	..	..	98	22,265	1,059	-21,206
2.	Andhra Valley Power	160	737	--	853	..	..	96	1,846	-	- 1,846
3.	Belpur Refract.	198	1,317	--	..	..	..	..	1,515	31	- 1,484
4.	TELCO	35,605	2,79,937	--	7,032	2,168		3,264	3,28,006	1,36,352	-1,91,65
5.	Tata Hydro	3,124	..	1,249	398	..	44	33	4,848	-	- 4,848
6.	TISCO	4,975	20,855	..	5,702	..	3,817	2,315	37,664	15,174	-22,490
7.	Tata Oil Mills	332	28,671	22	165	119	22	480	29,821	31,898	+2,077
8.	Tata Power	267	..	1,228	1,421	..	..	160	3,076	-	-3,076
9.	Voltas	33	16,161	..	179	647	1,261	2,141	20,422	22,933	+2,511
		47456	366180	2499	16653	2934	5,144	8,597	449463	207447	-242016

(Source: Company Balance Sheets)

CHAPTER - VII

PUBLIC POLICIES AND BIG BUSINESS

1. The growth of overall concentration in the private corporate sector, as also the phenomenal growth of the top business Houses in India, has been not in spite of government policies and pronouncements but because of the exceptions made by the government itself to encourage and promote large industrial Houses.[(1)] The basic factor, responsible for the rapid expansion of the top business Houses, is the 'high level' decisions authorizing deviations from the Economic Programmes Committee Report, and the Industrial Policy Resolutions of 1948 and 1956.[(2)] While the public pronouncements

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(1) Cf The Mahalanobis Committee was surprised that in spite of various legislations and Government policies, the concentration had increased (p. 54). The furtherance of business concentration was not, on balance, undesirable as per Hazari and Monopolies Inquiry Commission. (Hazari, Structure of Private Corporate Sector, p. 305, and MIC Report p. 136.)

(2) The first major policy departure was made in 1948 when the proposal for takeover of the then existing large concerns (as suggested in the Nehru Committee) was shelved for consideration after ten years. The second departure, of significance, was in the Industrial Policy Resolution, 1956, which accepted continuance of private sector in industries listed under Schedule-B. The later departures from the declared policy have been pointed out in Chapter VI. The main industries thrown open to private sector are: Aluminium, fertilizers, power, chemical pulp, sea transport, synthetic rubber, etc.

were made for the Indian public sector to achieve the 'commanding heights' and the Congress Party and Parliament of India passed resolutions for directing State policies towards establishment of 'socialistic pattern of society',(3) the Industrial Policy Resolution of 1948 was, in substance, diluted to allow greater role for the private sector.

In the middle of the 'Fifties, the then existing Iron & Steel and power units under the control of private sector, were allowed to stay, the Government in fact provided promotional finance for this purpose. If this departure from the declared policy had not been made, probably, there would not have been a later justification for any other private business House being given industrial licences for establishment of large sized projects from the list of industries, specified under Schedule B of the Industrial Policy Resolution of 1956.

2. Additionally, if the approach to industries as visualized during the mid-forties (that industries which were likely to become monopolies, either because of technological reasons or because of large capital outlay required, should only be developed

(3) Resolutions in this regard were passed at Avadi by the Congress and the Parliament. See: INDIA <u>Third Five Year Plan</u>, pp. 3-6.

under public control and ownership),[4] was adhered to, the private big business Houses would not have been placed in monopoly position in any one industry. In case of the public sector, the pricing policies and supposedly their resort to monopoly prices or to mal-practices would, however, have been a matter of public debate. The licence to establish private monopolies was, therefore, a result of the policy deviations and concessions by the state. Once private monopolies are allowed to be established, they are bound to have the capacity to resort to monopoly practices in order to reap high profit margins. <u>Secondly</u>, the decision to allow continuance and entry to private capital in areas like iron and steel, aluminium, heavy machinery, rayon grade pulp, fertilizers, basic chemicals, and basic drugs, by itself implied rapid growth of the assets and turnover under control of the business Houses. Each single large project would raise the assets by Rs. 100 crores or so. In brief, the phenomenal growth of business concentration in the private corporate sector is primarily due to the

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(4) See: Indian National Congress, <u>Economic Program Committee: Report</u> (Chairman: Jawaharlal Nehru) published in <u>Young Indian</u>, Vol.II pp. D 99-103

deviation allowed from the earlier political resolutions and/from the programmes, convassed during the national struggle for India's independence.

4. Did the change in attitude and the policies towards monopolies and concentration, come about independently? Or, due to the influence exercised by the private organized sector in general and the top industrialists, in particular? The answers can be only given by independent observers, within and outside the Government. The Dutt Committee Report, however, provides a large and varied evidence to paint a vivid picture of the techniques employed and the role of influence in the issue of industrial licences, and the favoured treatment granted to influential industrialists, by the Government.(5) One only wishes that Government would make the case studies, undertaken by the Dutt Committee, available to the public and scholars to have a clinching evidence of the extent of economic power exercised by the top industrial Houses.(6) After all, if one needs an evidence of state patronage, it is only the government records which can prove the point,

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(5) See: ILPIC Report, particularly, Chapters IV and VI.

(6) Ibid. For a list of the case studies, see Appendices, vol.-I.

either way. As long as the curtain of secrecy is not lifted, an objective discussion cannot take place; and those who take positions, could be easily described as mischievous, confused and dogmatic.(7)

Financial Institutions

5. Since Independence, Government has established a number of public sector financial institutions. The primary motivation for their establishment was to encourage new entrepreneurs, cooperatives and small and medium industries in the private sector; and this too as per the Industrial Policy Resolutions. The World Bank Team that visited India in 1954 proposed that in view of the need to harness private initiative and encourage new entrepreneurs, the Government should promote financial institutions which would extend risk capital. However, once these financial institutions were established, the original motivation and the objectives, for which these institutions were established, were kept aside; the financial institutions have now become the main financers of the companies and the new ventures promoted by the top industrial Houses of the country. The promotional finance, which was supposed to be made available for encouragement of agro-based indus-

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(7) Of late, employees of the FICCI and sympathizers of the Top Houses, have started a campaign to malign persons associated with the Dutt Committee. See, for instance, India To-day of May 1, 1979, pp.72-73.

tries in the co-operative sector and to help new entrepreneurs and small and medium industries, was diverted to help implement large projects, the industrial licences for which were awarded to the top and influential business Houses. The public sector financial corporations even helped many of the multinational corporations to expand their base in India. (8)

6. One important factor responsible for changes in the attitude and adoption of policies to help establish large enterprises of the top business Houses, was in the appointment of influential and leading private sector industrialists on Boards of Management of these institutions. (9) Once the management of public sector financial institutions came under the influence and control of the top Houses, it became quite

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(8) For a detailed account of the financial assistance provided by the 22 public sector financial institutions, see: <u>ILPIC Report</u>, Chapter VII and Vol. IV.

(9) Government nominated one representative each from the Tata and Birla Houses, for a long time. After the Bank Nationalization (1969) a marginal change in Board of Directors has taken place. However, even in 1978, S.L. Kirloskar and Arvind N. Mafatlal were on the Board of the Reserve Bank of India and ICICI had K.K. Birla, D.P. Goenka and M.V. Arunachalam on its Board.

easy for the top Houses to take advantage of their position and obtain large project finance at low rates of interest.

<u>Absence of Monopoly Regulations</u>

7. Granting of industrial licences to influential and top Houses for areas, which were earmarked for public sector development and projects which were of monopoly nature, by itself, would not have been that unfortunate if the government had observed the minimum regulations such as are observed even in countries like U.S.A. and U.K. For instance, there may be a case (how-so-ever weak it may be) or a policy decision under the plea of "public interest" for granting of monopoly rights to a House, in an industry. But in that case there has to be an adequate and effective regulatory mechanism to ensure that private monopolies does not take undue advantage of their position. Statutory price regulation, under the Essential Commodities Act, should have been imposed, as a starting point. (10) The Government has not, however, resorted to statutory control of prices. The price controls have been mainly through 'informal' understandings with the industrialists. On the international scene one has yet to come across examples where so much

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(10) Schedule A & B of the Industrial Policy Resolution of 1948 were supposed to be listing only basic, heavy and otherwise essential commodities.

faith has been placed on private monopolies, for self-imposed discipline of good economic conduct, as has been shown by Government of India. Under the situation, private monopoly undertakings have reaped quick and high profits. The high level of profits became quite easy in a protected market with no threat of competition, from within or outside the country. In addition to the large protected market, a variety of subsidies and concessions have been awarded to the large monopoly undertakings on the plea to protect and promote 'infant' and 'national' enterprises. The monopoly undertakings have been allowed not only to canvass and plead their cases for priority and concessional treatment but also to secure tax exemptions, and other concessions in the monetary and fiscal policies of the Central and State Governments. Many of the concessions can hardly be explained on any economic, social, political or plan logic.

8. The exploitation of the Indian consumers by the organized industrial sector and large and monopoly undertakings has been facilitated by the fiscal policies which allow high levels of depreciation allowances. This, naturally, enables the capital intensive industries to inflate their costs in addition to tax reliefs. The process of revaluation of assets, and the advantages accruing from

it, are a product of the high depreciation allowance practice. Tariff Commissions and agencies like the Industrial Costs and Prices Bureau, have become more an instrument to find justification for successive price rises and less, to cut down private profit margins in order to provide relief to the consumers. The MRTP Commission has remained ineffective to

curb even restrictive and other monopolistic trade practices, primarily, because the powers enjoyed by the Commission are limited ones. (11) The attitude of the Government towards private corporate sector, especially top Houses, is reflected in the fact that the MRTP Commission is more ignored than consulted. (12) It may be relevant to mention here that for most of the large companies of the private sector there is no statutory provision placing any obligation on them to maintain proper cost data. One comes across, case after case of companies in which the auditors certify that the company was under no obligation to keep records on production costs.

9. In the absence of any statutory obligation to maintain cost records, one can well imagine how the

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(11) Some of the limitations of the MRTP Act have been pointed out by the <u>Sachar Committee</u>.

(12) <u>Ibid</u> p. 251.

Tariff Commission and other government agencies can function. It would be helpful to scholars and public men to request the Government to publish the reports on aluminium, man-made fibres, and other important industries An equally pertinent question would be to ask why, so far, not even a single report of the MRTP Commission has been published by the Government. The reasons, one would submit, are obvious .

10. Another important aspect of concentration and growth of top business Houses is that the backbone to the top Houses in India is provided by the active involvement of foreign multinational corporations (MNCs). Under the plea of securing technical know-how, the top business Houses were able to bargain for liberal financial assistance from foreign governments, their official agencies and investment companies of the multinationals. The influence and capacity to provide funds by the foreign collaborators was, in most cases, more important than the possession of technical or professional competence. The grant of large loans, at low rates of interest, disbursed by the U.S.AID, foreign banks and other international financial institutions can only be explained by the influence exercised by the MNCs on their home governments and other international funding agencies. The

top industrial Houses of India, have technical and financial involvement from multinational corporations like, General Motors, U.S. Steel, Kaiser, Daimler Benz, G.E.C., I.C.I., Levers, and Enka. The question of Indian business Houses, therefore, is no more a matter of internal policies alone. For instance, if India decides to have certain policies towards the companies like Zuari Agro (a Birla Company) and Associated Bearing (a Tata company), it has international implications.

11. In 1969, fourteen Indian commercial banks were nationalized. The precise reasons, for the nationalization, were never spelled out. The public, however, was given an impression that the nationalization of private commercial banks was motivated by the desire to de-link control of top industrial Houses from the banking sector. It was believed that with the nationalization, the top industrial Houses would not be able to obtain easy, cheap and convenient finance <u>vis-a-vis</u> others. It was further pleaded that nationalization of banks would result in reduction of loans and advances to the organized private sector in general and the big business Houses, in particular. It was further agreed that the nationalized banks would promote agriculture, small-scale and medium industries.

12. After completion of a decade of the nationalization, one has to question as to how far the nationalized banks have functioned differently from what they used to, during the pre-nationalization era. The nationalized banks have, undoubtedly, made larger credit available to agriculture and small-scale industries; the change, however, in terms of percentages, is hardly any proof to suggest the fulfilment of the envisaged objectives, for which the private banks were nationalized. The nationalized banks provide even larger loans to the companies of the top Houses. The earlier understanding, that the availability of rolling working capital, de facto amounts to provision of long-term finance, has not been used to correct the distortions existing in the loan structure of the banks. Just as in the case of the public sector financial institutions (like the Industrial Finance Corporation, IDBI, ICICI, and others where Board of Directors had representatives of top industrial Houses) the nationalized banks and the Reserve Bank of India too continue to have private industrialists on their boards. Surprisingly enough, after the bank nationalization, there has been no real discussion, at the policy-making levels, to use the nationalized banks as instruments for reducing concentration or regulating operations of the top industrial Houses. The pleas put

forth for the nationalization of private commercial banks have been completely forgotton. Should one say that these are forgotton? Or, the reasons are: on the one hand, no willingness to reduce concentration, and on the other, pressures have been exercised by individual industrialists, representatives of the top industrial Houses and organized industrial sector to seek favours, through political interventions in matter of receiving loans and other forms of financial accommodation from the nationalized banks.

13. It appears, at the policy making levels, it was believed that private industrial Houses would compete with each other to the advantage of the common man. The expected competition between Houses, it was also believed, would enable the government to exercise the countervailing role and guard 'public interest'. However, such assumptions have proved to be wrong and without any basis. The private industrialists and business Houses have been, and are, operating with abundance of mutual understanding of the interests of each other. It is rarely that the Houses indulge in competition among themselves. On the contrary, one can find evidence to show a fair degree of co-ordination between the top industrial Houses, through interlocking of

directorships and inter-corporate investment. In a number of companies of the Birlas, there are senior industrialists belonging to other Houses, and the same is true of the Tatas companies. The general coordination between industrial Houses is continuously sought to be achieved through forums like the Federation of Indian Chambers of Commerce and other associations of the organized private corporate sector.

14. There is hardly any political discussion or economic policy on which the industrial Houses do not get together to represent collectively. The expression of opinions by individual industrialists may be timed in such a way as to achieve the maximum impact on public policies. (13) Parliament and Government, have always given a patient hearing to the viewpoints of large private industry. Because of the large financial and infrastructural resources at their command, the organized private corporate sector is able to establish contacts with political parties, individual public representatives and the administrative system at all levels.

Political Parties and Public Policies

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(13) The criticism of the proposed policy alternatives to curb business concentration by G.D. Birla, J.R.D. Tata and S.L. Kirloskar within the month of May 1979 cannot be treated as a matter of sheer coincidence.

In contrast to this, not even a single political party has paid attention to undertake systematic studies of the economic and other national problems. (14) Public policies never get debated on the basis of facts. The so-called freedom of the press in India is restricted to the freedom of a few national newspaper establishments, each one of whom is, invariably, under control of a business House.

15. One comes across, quite frequently, political personalities expressing views which are more of fancies and whims than based on any realistic understanding of the problems. Because of the inherent limitations and absence of any clear policy frame, it is not un-common to see that assertions by political personalities get ignored in business and other circles. In fact, if radical slogans are too frequently voiced, without any follow up, the credibility of political leaders and the system is bound to get affected adversely. Writing out of stray thoughts, indulgence in strong denunciations and issue of public warnings to big business or the traders in general achieves no objective. Political parties

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(14) The only exceptional case is that of Socialist Party of India which brought out a number of phamphlets for education of workers on important issues of public policy.

and their leadership would, in all probability, need to devote time in understanding the real nature of economic system that they are expected to administer. The ones in power, however, depend more in reading out speeches prepared by the civil servants than applying their own mind on the problems. If public policies were argued not to gain applause from the galleries alone, the fate of many a public policy can be quite different. Unfortunately, the experience of the recent past has made people wonder if political assertions, made by the ruling as well as the opposition parties can really be taken seriously. We must ask, as to why the talk about nationalization of some Companies and Houses, fails to evoke the type of public support that one saw when the 14 private banks were nationalized. It would not be corr ect to say that the public at large would support the growth of big business Houses; the reason for change in attitude is because of low credibility of the political parties. There has been an erosion. The correction to it would also have to come from the political parties and from no-where else.

16. A consequence of fast growing concentration of economic power in private hands is that deliberate efforts are made to create an impression that there was a strong case

for allowing private sector and large Houses to grow without any restrictions. And further, the public sector should be assigned a minimum possible place in the economy. Such an approach has been promoted by the organized business sector for a long time. The number of publications brought out to malign public sector, by the FICCI, is an indication of the organized attempts in this direction. No one is attempting to defend public sector for its fault. However, how many studies has the FICCI brought out to show the malpractices of the private monopoly concerns or even that of the foreign companies and multinational corporations. Studies on the private sector cannot be the objective of the FICCI, for obvious reasons.

Appendix - A

Extracts from the Second Industrial Licencing Policy Inquiry Committee Report (1969)

(Rayon Grade Pulp)

RAYON GRADE PULP

Allegations -

"Birlas applied for industrial licence in 1960 in the name of Manjushree for establishing a plant in Assam. A licence was granted for 54,000 tons capacity per year. Foreign Exchange was also given for the same but for some reason or other, they could not proceed. In 1965 they applied for additional licensing capacity for establishing two plants, one in the name of Kesoram Rayons and another under the name of Century Rayon for establishing a plant in U.P. Similarly, they applied for another plant in 1965 under Gwalior Rayon for establishing a plant in Mysore. They applied for a third plant in Himachal Pradesh. They already have a plant in Kerala.

In this connection, it may be observed that National Rayon were given a licence for establishing a plant in Mysore and the necessary import licence was also given, but the scheme could not materialise due to some objection or other raised by Government officials at the instance of Birlas to frustrate the scheme of National Rayon".

We give below the list of applications for licences for production of Rayon Grade Pulp made by concerns belonging to the House of Birla.

(i) Gwalior Rayon was the first to enter the industry and they obtained a licence for 36,000 tons in March, 1958, with a substantial expansion licence for 18,000 tons in January, 1961.

(ii) Manjushree Industries applied in April, 1960, for a new unit in this industry to be located in Assam and in February, 1961, was granted a licence for a capacity of 54,000 tons.

The approval of the first application of Gwalior Rayon has some special features that may be noted. Gwalior Rayon had already undertaken the establishment of a unit in Kerala and a capital goods import licence had been issued to it before the industry was brought under the Industries (Development & Regulation) Act by the Amendment Act of 1956. In 1957, as a result of the foreign exchange difficulties, it was decided to review all the capital goods import licences that had remained unutilised up to that time. Ultimately, after discussion, an import licence of Rs. 3.05 crores was granted on 25.8.59. This was made a cash licence on 14.1.60. On 10.3.60, Gwalior Rayon applied for substantial expansion in Kerala, within two months of their being permitted the import licence of Rs. 3.05 crores. Their industrial licence of 21.3.58 remained to be implemented. On 12.4.60, the Licensing Committee decided to approve the scheme, without enquiring whether the raw materials required for expansion would be available; it was decided that this should be certified by the State Government. The licence was issued on 17.1.61.

Another application from the Birla Group for rayon grade pulp was received in April, 1960, from Manjushree Industries for a new unit in Assam. No question was raised about the competence of Manjushree industries either by way of experience or finance. The authorised capital of Manjushree Industries was Rs. 5 crores and paid up capital Rs. 5,000. While the DGTD

officially recommended rejection, as a Sahujala Unit had already been licensed for Assam, the Ministry took the line that as the State Government were supporting the application, the DGTD should reconsider its views. The DGTD agreed with this and an estimate was obtained from Assam about the availability of raw materials. The availability estimate given in 1956 was 200,000 tons per year, but in August, 1960, as an enquiry was made in connection with this application, the Assam Government gave an estimate of 1.44 million tons. At a later date, on 21.11.6 an estimate made on the basis of another Central Government enquiry gave the figure 480,000 tons!

On the basis of the estimate of the Assam Government made in 1960, a recommendation was made by the DGTD in January, 196 that raw material would be available for Manjushree's requirements. The summary for the Licensing Committee, however, failed to maintai facts from which an inference would certainly have been drawn that there would be serious raw material difficulties for some years to come. The Licensing Committee approved the application and the licence was granted on 16.2.1961.

Manjushree did not take any steps for two years to imple ment the licence and in August, 1963, proposed a transfer of the licence to Kesoram Industries of the Birla Group. The plea was then put forward that Kesoram would be able to find capital and

also were in the field of rayon yarns manufacturing. Even at that stage, when this matter was taken to the Licensing Committee in July, 1964, with a suggestion that Manjushree's licence might be revoked, the Licensing Committee recommended that in view of the need for a large unit in Assam, the entrepreneur might be given an opportunity. So, the licence was not revoked. It remains unimplemented and was not revoked until the industry was delicensed in 1966.

Kesoram Industries of the Birla Group sent their own application on 20.11.1965 mentioning that a licence might be given to them in lieu of Manjushree which would be surrendered. The Assam Government was against granting this licence, fearing that Kesoram, like Manjushree, would not do anything to implement the licence. When they sensed that the Assam Government was not ready to support the application, a fresh application was made for an undertaking in Uttar Pradesh, after consultation with the Planning Commission. Before any decision could be taken on the application, the industry was delicensed in May, 1966.

Regarding National Rayon, this firm was granted a licence on 19.1.1961 for the establishment of a new undertaking in Mysore State for the manufacture of 30,000 tons of rayon grade pulp per annum. The Company entered into a foreign collaboration

and the C.G. import licence against loan from United States Loan Fund was also approved. When it was, however, observed in 1963 that sufficient progress was not being made, a show cause notice was issued and in the reply the party stated that owing to gregarious flowering of bamboo in the areas allotted to them, the State Government was unable to meet the raw material requirements. As the State Government would take at least another six years for supplying eucalyptus, another suitable raw material, for the industry, implementation would have to wait for that period of time. The firm therefore requested in December, 1963, for extension of the validity of the licence. The State Government's position was that it had made an offer in August, 1964 to the company for the supply of eucalyptus after a period of 7 years provided the company took up the work of construction of factory etc. after a period of 4 years from 1964 so that by the time it was ready, the factory could come into production. The State Government considered (vide their letter dated 18.1.65) that the National Rayon Corporation had not shown the required interest in the matter. The licence was therefore revoked in March, 1965. A representation was received from the firm (vide letter of 20th March, 1965) stating that effective steps had been taken and financial commitments made and therefore Government should reconsider the decision to revoke the licence. As this

was agreed to, this company made a new application on 5.6.65. The DGTD commented regarding this that as the plantation of eucalyptus had yet to be undertaken by the State Government and this could not materialise before 1973-74, it was premature to licence the scheme. The Government of Mysore, which was addressed on 10-6-65 for their comments on the application, did not send any comments till 13-12-1965.

[illegible]. In the meanwhile, Gralior Rayon made an application on 4.8.65 for setting up a new unit in Mysore for rayon grade pulp. Representatives of this company apparently held discussions with the State Government and it was decided that raw materials of flowered air dry bamboo as well as air dry eucalyptus would be made available in sufficient quantities. The Mysore Government in its comments received on 13.9.65 indicated that raw materials on the above mentioned basis would be available. The DGTD commented that the Kerala Unit was experiencing various difficulties. The application of Gwalior Rayon was not complete in many respects but, it was observed by the DGTD, to have been made "with a primary object of staking their scheme for raw material resources (both existing and that to be created)". There was a firm - Greater Mysore Rayons - which held a letter of intent, though it was thought that there was no prospect of their

implementing the project. Both the applications were held over for further decision. As the industry was delicensed in May, 1966, no final decisions were taken.

It is thus apparent that in the case of Rayon Grade Pulp Industry, the House of Birla made definite efforts to obtain a monopolistic position in the industry. Regarding the scheme of National Rayon, there appears to be no substance in the allegation that it did not materialise because of the objections raised by Government officials at the instance of Birla. The Scheme was based on the use of eucalyptus and after the licence was granted to the company on 19.1.61, no attempts were made to establish a new undertaking. Indeed, it was not possible to make a start as supply of eucalyptus was not available. The Gwalior Rayon Scheme was based on the use of bamboos in the initial stage and later of eucalyptus. Since Gwalior Rayon offered to use even flowering bamboos for the purpose for the first few years and later eucalyptus when it became available, their scheme appears to have received preference.

3 (a) RAYON YARN

Allegation:

> "During the last five years, the Birla have extended the production of synthetic fibres. They control 75 per cent of Rayon Yarn in India".

The table below provides information about the licences and installed capacity in regard to certain man made fibres which may be considered as belonging to a common category, viz. cellulosic fibres.

Licensee	Capacity Licensed (in million Lbs.)	Capacity Installed (in million Lbs.)	% to total capacity Licensed	% to total capacity Installed
	I. Viscose Staple Fibre			
1. Gwalior Rayon (Birla)	48.0	48.0	86.0	86.0
2. South India Viscose	8.0	8.0	14	14
	56.0	56.0		
	II. Viscose Filament Yarn			
1. Indian Rayon (acquired by Birla	8.0	8.0	9.8	10.4
2. National Rayon (Chinai	18.0	18.0	22.2	23.4
3. Travancore Rayon (Muthiah)	11.0	7.0	13.6	9.1
4. South India Viscose (Naidu, G.V.)	8.0	8.0	9.8	10.4
5. Baroda Rayon (Chinai)	6.0	6.0	7.4	8.0

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Licensee	Capacity Licensed (in million lbs.)	Capacity Installed (in million lbs.)	% to total capacity Licensed	% to total capacity Installed
6. J.K. Rayon (J.K.)	8.0	8.0	9.8	10.4
7. Century Rayon (Birla)	14.0	14.0	17.3	18.2
8. Kesoram Rayon (Birla)	8.0	8.0	9.8	10.4
	81.0	77.0	-	-

(Birla: 30 million lbs. (or 37%), including 8 million lbs. (or 9.8% representing Indian Rayon acquired.

III. Acetate Staple Fibre

Licensee	Capacity Licensed	Capacity Installed	% Licensed	% Installed
Modern Mills (not a Large House)	4.0	Revoked	-	-

IV. Acetate Rayon Yarn

Licensee	Capacity Licensed	Capacity Installed	% Licensed	% Installed
1. Sir Silk (Birla)	8.0	4.0	30.0	100
2. Modi Industries (Modi)	8.0	Revoked	30.0	-
3. Modern Mills (Not a Large House)	3.0	Revoked	11.0	-
4. Hindustan Cellulose & Paper Mills (Birla)	7.5	Revoked	29.0	-
	26.5	-		

(Birla: 59% of licensed and 100% of installed capacities)

Appendix - B

Extracts from the Second Industrial Licencing Policy Inquiry Committee Report (1969)

(Aluminium)

The two main points arising out of this allegation are: (i) the permission to develop the plant in the private sector and the Licence given to the Birlas, and (ii) the question of electric power from Rihand Dam being made available at concessional rates. We deal with these separately.

ALUMINIUM PLANT IN PRIVATE SECTOR

Proposals for the development of aluminium industry in the Second Plan period were initially prepared by a Committee of Experts appointed by the Ministry of Commerce and Industry in October, 1955. The Committee in its report, submitted in September, 1956, had suggested planning of two units, each of 10,000 tons per annum; one at Mettur to bring it into production as soon as possible in the Second Plan period and another based on Rihand Dam so that it should come into existence during the last years of the Second Plan. The plants were to be so planned that they could be later expanded to a capacity of 20,000 tons per annum. The Planning Commission had decided to give high priority to the further development of the aluminium industry. It was considered that the industry was highly

capital intensive and involved complex technical knowhow, which was monopolised by a few world-wide companies; further, plants much larger than those then in operation in India were thought to be necessary. Hence it was doubtful if private enterprise would find the required resources. It was also emphasised that the State had interest in the industry both as supplier of power required for it and as customer for important products required for power transmission, aircraft and other purposes. It was, therefore, stated "in view of these various considerations, it may be necessary for the Government to foster the establishment of a new unit, possibly through the National Industrial Development Corporation (NIDC), so that an additional capacity of 10,000 tons of aluminium per annum may be brought into existence 1960-61". (1)

The National Industrial Development Corporation was entrusted with this task and a French consulting firm was employed for examining the availability of bauxite resources and working out proposals for setting up two aluminium plants, as suggested by the Expert Committee.

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(1) Second Five Year Plan; "Programme of Industrial Development" (page 32).

The representative of this firm, understood to be one of the well-known experts in the field, surveyed the various occurences of bauxite in India and submitted his report on 25.11.1957. One of the points made in the report was regarding the very attractive features of the potential bauxite deposits at Amarkantak.

At this time i.e., when the National Industrial Development Corporation was asked to do this work in 1956, the private sector had not shown much interest in the development of the aluminium industry. However in the second half of 1957 with the foreign exchange difficulty that the country faced, a special attempt was being made by Government to attract foreign private investment. When the then Finance Minister visited the United States to he attempted to emphasize among audiences of potential American investors the importance that the Government of India was going to attach to the role of the private sector and foreign private investment. At the same time, a delegation of industrialists sponsored by the FICCI and supported by Government visited the U.S.A. and other foreign countries. The purpose of this visit was to establish

contacts with foreign industrialists to create a suitable climate abroad for increased investment in India and also to explore the possibilities of collaboration agreements to establish new industries. The delegation was headed by Shri G.D. Birla. One of the points mentioned in the report of the delegation was that while the delegation did not make direct deals, the individual members on their own account initiated various projects. It was during this visit that the possibility of establishing an aluminium plant in India on the basis of American collaboration was explored.

We have not been able to locate any records which indicate how and when a decision was taken regarding the development of the aluminium industry in the private sector. It appears from a noting of the Chief Industrial Adviser of the Ministry of Commerce and Industry that the question of permitting the private sector to develop the aluminium project was considered just before the Finance Minister went to the U.S.A. for the visit mentioned earlier. There was a discussion between the Prime Minister, the Finance Minister and the Commerce and Industry Minister, so as to evolve a picture of the specific industries which could be thrown open for development in the private sector even among those which

had been included in Schedule 'A' and Schedule 'B'). The Adviser thought that it was on the basis of decisions taken during this discussion that both Shri G.D. Birla and Shri Venkataswami Naidu were encouraged to contact possible American collaborators for the two proposed aluminium plants.

According to a noting by the then Minister of Industry, the Government decided to throw open the aluminium industry to the private sector because the Government's hands were too full with various other industrial projects. The aluminium industry was comparatively a simple line, already well established in India, not requiring major technical knowhow and therefore, could be established easily. It was also a very profitable line and therefore private industry could be expected to take it up. At another stage, the Minister pointed out that it was because of the resources position that the Government decided on the establishment of only two aluminium plants and even those could not be in the public sector because of the deterioration in the foreign exchange resources position. Therefore, in the middle of 1957, it was thought advisable to permit private parties to negotiate for these two plants with foreign collaborators, provided

the Indian parties found their own internal resources and negotiated suitable deferred payment terms for the foreign exchange required for the import of plant and machinery on terms acceptable to the Government of India.

It is apparent that this decision was taken some time during the second half of 1957. M/s. Pechiney, the French firm, were however not informed about this and they went ahead with their work for the National Industrial Development Corporation on the assumption that the development of the projects would be in the public sector through the National Industrial Development Corporation. As mentioned earlier, the report of the export sent by them was signed on 25.11.1957. On 30th November, 1957, Shri G.D. Birla wrote to the Secretary, Commerce and Industry, "You were good enough to ask me to take up the project of aluminium at Rihand". He put forward certain preliminary proposals about the project which were mainly that an aluminium plant with a capacity of 10,000 tons per annum was to be set up at Rihand through a new company, power was to be supplied at specially cheap rates by the U.P. Government and collaboration on suitable terms was to be entered into with Kaisers of the U.S.A. Shri Birla was then advised to file an application

under the Industries (Development & Regulation) Act, for an industrial licence which was done on 5th December, 1957.

While this was being processed, on 13th December,1957, the Ministry informed Shri Birla that he might proceed with the preliminary report investigations on the understanding that if the engineering side was found to be satisfactory on completion, the actual project might be proceeded with, subject to the condition that the entire foreign exchange expenditure for the import of capital equipment would be covered by the participation of the Kaiser's interest in the capital of the proposed company or from loans from the Exim Bank and the ICA on terms acceptable to the Government of India. That the Government, even before considering the grant of licence, had decided to assign this project to the Birlas is further indicated by the letters written by the Ministry to various governmental authorities when the Kaiser team of technicians came to investigate bauxite deposits, intimating that Government had approved in principle the Birla proposal for setting up an aluminium plant. Similarly, the Government indicated to some private parties who evinced interest in the development of the aluminium industry that they should contact Birla Brothers or Shri Venkataswami Naidu who had been chosen by

Government for the development of the two proposed projects. Again, M/s. Pechiney complained to Government regarding being kept in the dark on this matter and expressing regret that they were left out because they agreed to negotiate with the Government instead of with the private sector. The Chief Industrial Adviser in his reply to them suggested that they should now deal with the private sector and especially the two parties - Birlas and Naidu - who were endeavouring to process the two schemes.

Though various technical matters remained to be sorted out before a licence could actually issue, the Government had made it clear that the Birlas could rest assured that the Government had agreed to their setting up the project. The Minister for Commerce and Industry in a letter to the State Government of Uttar Pradesh, dated 1/2nd August, 1958, pointed out, "Shri Birla had already been officially advised by the Ministry that his proposal is accepted in principle subject to the details being satisfactory, etc." A Conditional Letter was issued on 20.1.1959 stating that the Government of India had no objection to the grant of a licence provided that

certain conditions were satisfied, especially regarding engineering and project studies being completed to the satisfaction of Government, the question of power supply being settled, the foreign exchange expenditure being met through capital participation and credits on terms acceptable to Government and the terms of foreign collaboration being approved by Government. Questions relating to terms of foreign collaboration continued to be discussed between Government and the Birlas for some time. While it was felt earlier that aluminium manufacture being a simple process, not requiring major technical knowhow, could be handled by the private sector, it was now observed that the terms proposed for foreign collaboration were very costly.

The manner in which the case was being handled is indicated by the fact that in August, 1959, the Minister of Industry in a note pointed out that the Development Wing had not so far examined the case and that this should be now done. It seems however that it was realised that as a result of the approval given by Government to conduct negotiations, both the parties had "mutually unnecessarily over-committed themselves". It was therefore

found that the terms that were now being proposed, even though they were not found to be quite appropriate, had to be accepted. Various objections raised on the Government side to the terms of foreign collaboration, the capital structure proposed, as well as the proposal to have a Managing Agency were withdrawn and a licence issued in September, 1959.

In conclusion, it may be stated that aluminium being in Schedule 'B' of the Industrial Policy Resolution,

public sector. Different reasons have been stated at different times to justify the decision to permit the development of the industry in the private sector. Further, the decision in principle to permit Birlas to set up the plant based on Rihand power seems to have been taken before any application from the Birlas was received and the decision was maintained in spite of difficulties that were later observed regarding the conditions under which Birlas were able to develop the project.

II - POWER FOR ALUMINIUM PLANT AT RIHAND

One of the main arguments in favour of the development of the power project at Rihand Dam had been

that it would provide power which could be of great use in the development of industry in the Eastern districts of U.P. which are some of the most backward and under-developed in the country. However, when the question of exploiting the bauxite resources located in Madhya Pradesh was considered by the Expert Committee in 1955-56, it was indicated that the plant should be based on Rihand power. Shri Birla in his letter of 30th November, 1957, had pointed out the importance of the U.P. Government providing power at especially cheap rates. In a further letter to the Minister of Industry in December, 1957, he pointed out that while the U.P. Government was anxious to help, the Government of India should impress on them that the supply should be at the cheapest possible price "I have told you that some of the State Governments are prepared to give bulk supply at Rs. 100 per KW/year. As this would be project in U.P., I hope the U.P. Government would be generous in this behalf".

In February, 1958, the U.P. Government wrote to the Government of India to say that the State Government would have no difficulty in arranging the requisite power for

these projects. The Planning Commission, however, appears to have raised objections, pointing out that the State Government which had earlier promised to make electricity from Rihand available to the Railways were now reluctant to fulfil the promise. At a meeting held in April, 1958, even the Finance Minister seems to have inquired as to how it was agreed to give a licence for aluminium industry at Rihand before the question of power availability was checked up. In a meeting held in March, 1958, by the Chief Minister of U.P., the Chief Industrial Adviser to the Ministry of Commerce and Industry pointed out that about 60 to 65 MW would be needed by 1960-61 for a 20,000 ton plant; further 135 MW would be needed later when the factory expanded to 40,000 tons. The Chief Minister pointed out that the Rihand Dam Project had been planned basically to supply power to the Eastern districts of the State and that the Supply of bulk power to the aluminium plant would have to be arranged keeping this in view.

At the same time, the Chief Minister objected to the Planning Commission's representative raising objections to the proposal for grant of a licence based on considerations relating to the supply of power. In a letter dated 24th July, 1958,

to the Planning Commission, he stated, "If it is eventually decided to shift the aluminium plant elsewhere, because of the unwarranted assumption that the U.P. Government is not prepared to make any power available for the Railways, it might lead to serious political repercussions in U.P." The Chief Minister also suggested to the Central Government that they should set up a thermal plant at Mohgulsarai to provide power needed for Railways as well as for industries. The U.P. Government, however, made a tentative allocation of power from Rihand which after providing for the requirements to the aluminium project (58.5 MW), the railway electrification and other large major loads, allowed only 8.5 MW for miscellaneous loads.

This was pointed out by the Planning Commission in May, 1958, enquiring whether the U.P. Government could afford to allocate one-half of the total power from the project at an unremunerative rate. A question was raised how the U.P.Government would be able to service the Central loans on the basis of such a distribution of power produced. In a meeting held in May, 1958, of a committee appointed by the Chief Minister of U.P. regarding the supply of power for the

aluminium project, it was pointed out on behalf of the U.P. Government that if power was to be supplied only for a 10,000 ton plant, the unremunerative rate might not be too troublesome, but if the power was to be provided for for a 20,000 ton plant, there would be difficulty. The Birla representatives at the meeting indicated that a rate higher than Rs. 150 per KW/year might be ruled out straightway. Moreover, the Birlas had indicated that they were thinking of further expanding the plant to 40,000 tons or even more. It was made clear that no commitment regarding the supply of power for this expansion could be made.

Finally, in April 1959, the U.P. Government confirmed in a letter to Shri G.D. Birla that the Government would supply at 90% load factor a maximum of 55 MW of power from the Rihand Power Project, at the rate of Rs. 150 per KW/year and that the rate would be fixed for a period of 8 years. It was also mentioned that power used for industrial purposes was being exempted by the State Government from payment of electricity duty and, therefore, Hindustan Aluminium would also enjoy this exemption. The rate decided on may be compared to the rates charged in the Eastern areas which seem to have exceeded Rs. 400 per KW/year.

The question of power again came up when in 1960 the Hindustan Aluminium brought up the question of expanding their capacity from 20,000 tons to 50,000 tons. For this purpose, it was proposed that they should be permitted to have a captive thermal station so as not to tax further the already severely committed Rihand Station. It was suggested that the thermal power station would produce power at about the same cost as the cost at which it was obtained from Rihand, and that the foreign exchange requirements would be met from loans from various American sources. An objection was raised that power production falls under Schedule 'A' of the Industrial Policy Resolution. While the Industrial Policy Resolution provided that in appropriate cases, privately owned units might be permitted to produce an item in Schedule 'A' for meeting their own requirements, the Planning Commission raised the question whether this would be an appropriate case for such a departure from policy. It was pointed out that Government's attempt at obtaining foreign exchange resources for further expansion of power supply had not been very successful and if such resources were going to be available, they could be used for the overall plan of power development instead of the benefit of a particular private concern. The exemption to Schedule 'A) for captive consumption was meant to apply to standby plants of a small size and to a major power station.

However, at the highest levels in the Government of India, it seems to have been felt that an advantage of permitting the Birlas to put up their own power station would be that the power that was being supplied to them from Rihand would be released. While an objection had been raised from CWPC that the cost of power from the proposed station might be too high (about Rs. 300 per KW/year) it was thought that this was a matter for the entrepreneur to consider. The Finance Ministry also supported the proposal on the basis that the Birlas would give up Rihand power which they were using in large quantities and release it for the use of the State. In October, 1962, it was pointed out that the Prime Minister was going to visit the Rihand Dam as well as the aluminium plant in a month or so. An enquiry was made to the Planning Commission why the proposal was being held up, also drawing attention to Shri G.D. Birla's statement to the Prime Minister that enormous administrative delays in decision-making were producing a bad effect in the U.S.A. The Planning Commission replied that outstanding proposals concerning the captive power plant were being speedily processed and were to be decided on merit.

The proposal was approved early in November, 1962 on condition that foreign exchange would be arranged separately, that the U.P. State Electricity Board would control the price at which the power would be supplied, and that the Government would have the right to acquire the power plant at its depreciated value any time from 10 years after the commencement of its production. It may be noted that the principal argument earlier put forward that the setting up of the captive plant would lead to a release of the Rihand power already committed to the plant, was nowhere mentioned. This condition was thus not included when finally the proposal was approved.

Regarding the allegation that the Birlas were allowed to utilise almost the entire power from Rihand Dam, the facts reveal that the Birlas were given 55,000 KW out of the total capacity of 110,000 KW available from Rihand Dam Regarding the allegation that Birlas obtained another 55,000 KW of power from Rihand Dam after the expansion of their factory, no facts are available with us.

The other matters that have been mentioned in the allegation, namely, payment for power and the earning of huge profits, are outside the scope of the inquiry conducted by this Committee.